

KNYSNA MUNICIPALITY ANNUAL REPORT 2005/2006



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EXECUTIVE SUMMARY

Knysna Municipality has had an eventful review period which was characterized by the absolute determination of its leadership to tackle, without fear or favour, the complex challenges with which the Municipality is faced. This determination has been paralleled by an unprecedented amount of compounded problems, ranging from infrastructure development to the growth of the second economy.

The year under review has been a five-year term which ended for the previous council leadership, and the advent of a new political collective is expected to take this Council to greater heights. The administrative arm has been busy positioning the Municipality as the centre of excellence to emulate in our quest to confront the generic problems of local government. In pursuit of these ambitious intentions, the year under review has seen the Municipality working towards enhanced institutional capacity and service delivery.

The Municipality also prides itself on the strides that it has made in the public participation arena through the establishment of Ward Committees. However the commitment from these committees to facilitate a two-way communication between the Municipality and the public has to be nurtured. There remains a lot of work to be done in this area.

The Municipality's emphasis on human capital development is also commendable. The Municipality's workplace skills plan was submitted and approved by LGSETA. Its commitment and desire to be ranked as a good place to work is further espoused by the amount of work done towards employee wellness and Occupational Health and Safety (OHS). Workshops have been conducted which have addressed staff problems ranging from alcohol abuse, indebtedness, family problems, HIV/AIDS etc.

A library depot at Kayaletu was established and this is a significant highlight for Knysna Municipality because of the extremely high illiteracy rate in the area. Programmes such as family literacy, basic computer classes and story-telling have ensured that there are appropriate activities in these facilities.

Housing continues to be the thorniest issue facing Knysna Municipality, even though the year under review has seen a fairly significant amount (R4 145 299) of investments being made towards the provision of 117 housing subsidy-financed homes. The influx of people seeking jobs results in an ever-increasing demand for housing. This coupled with the shortage of available developable land further compounds this problem.

With crime on the increase in the Greater Knysna area, the Municipality has established community policing forums in almost all the areas of Knysna.

Knysna Municipality has commissioned electrical engineers to determine the Municipality's future bulk needs to keep up with the demand for electricity infrastructure. This exercise has laid a sound foundation for forward planning and innovative means in providing electricity. Savings on electricity use and costs have been realized.

The intention of the Municipal Systems Act with regard to the Annual Report is that it should reflect the implementation and progress made in terms of the approved Integrated Development Plan for a particular municipality. In Knysna Municipality, the Council has approved the 2005/06 IDP and, to ensure that the IDP is successfully implemented, performance agreements were entered into with the individual Section 57 managers on a scorecard consistent with the Indicators contained in the Integrated Development Plan.

Knysna's Infrastructure with regard to water, sewerage and roads is also under pressure. This creates a challenge to ensure that additional funding for this infrastructure is sourced.

The following infrastructure costs have been incurred during the year under review:

Street Lighting	226,113
Electricity	6,942,392
Sewerage Purification	781,504
Sewerage Reticulation	4,925,916
Sewerage Sanitation	688,885
Storm Water	727,858
Streets, Pavements and Transport	6,520,491
Public Toilets	185,684
Water Purification	8,510,139
Water Reticulation	3,176,148

This is evidenced by a recent DBSA appraisal report which is available from Council on request. The report details 9 positive and 3 neutral ratios and this, together with Knysna's first unqualified audit report, emphasizes Knysna's sound financial position. This must, however, be tempered by the increased demands being placed for infrastructure growth and the concomitant financial pressures this entails.

The commitment of Knysna Municipality to institutional transformation has been noteworthy during the year 2005/06. However, at the end of the year under review, it was apparent that the institution is still faced with the challenges of transformation. The basis for this assertion is that the employment demographics of Knysna Municipality are not consistent with the demographics of the society it serves.

During the 2005/06 financial year, Knysna Municipality appointed 99 employees in various departments. All appointments were based on both service delivery needs and the Municipal Equity Plan.

A total of R 4 177 971 has been spent by the Municipality on the salary costs of Senior Management and Councillors during the year under review.

The report of the Auditor General to the Council on the Financial Statements of the Knysna Municipality for the year ended 30 June 2006 has been favorable. In the opinion of the Auditor General, the financial statements of Knysna Municipality have been prepared, in all material respects, in accordance with the basis of accounting standards described in note 1,1 to the financial statements and in the manner required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA).

CONCLUSION

In terms of the Annual Report for the year 2005/06, there is sufficient basis for Knysna Municipality to be proud of its achievements and to take note and accept the challenges of change and transformation.



The Knysna 2020 overall plan sets out what we want to achieve in seven strategic areas. Each strategic objective has several action programmes that provide an opportunity for everyone to contribute.

	STRATEGIC OBJECTIVES	ACTION PROGRAMMES			
<p>Addressing the needs of citizens and visitors</p>	<p>A Caring & Contented town</p> <p>We want to create a community in which no one is left out - in which there are real opportunities for the young and women, and proper care for the aged.</p>	<p>Targeted development of deprived areas</p> <p>Inequalities in Knysna are deep-seated and created by race, special needs, with wide resource support, will be deployed in the poorest communities. They will have defined tasks and set timeframes to produce results.</p>	<p>New housing</p> <p>Demand for new housing is being addressed through various programmes, with funding assistance and support by the Province.</p>	<p>HIV / AIDS</p> <p>We will continue to support the Knysna AIDS Council. More people are affected by HIV/AIDS in Knysna than in any other rural area in the Western Cape. A clear programme, involving the Province and the community will be implemented.</p>	<p>Social Development & Community Safety</p> <p>A disaster management plan will be implemented. A clear law enforcement strategy will be developed and forcefully implemented.</p>
	<p>A Successful and Respected town</p> <p>A sound economy is the basis for a successful town. Knysna needs to rely on its strong tourism and development sectors to broaden and deepen its economic base.</p>	<p>Relationship Building</p> <p>Partnerships with other spheres of government will be sought to "crowd-in" resources, from national and provincial programmes. We will work with the private sector and develop mutually beneficial relationships with willing stakeholders.</p>	<p>Local Business Growth</p> <p>This will involve several initiatives. We will work across to attract and finance available through provincial and national schemes. Black economic empowerment will be assisted by the new Procurement Policy.</p>	<p>Creating jobs from development</p> <p>Maximum work opportunities must be extracted from new development. A "Development Charter" will be negotiated to achieve this. There will be a specific focus on business development in the "townships".</p>	<p>Deepening the tourism supply chain</p> <p>We will promote "developmental tourism" and involve those previously excluded in tourism ventures. In addition, the viable value chain linked to tourism will provide opportunities for sourcing more goods and services locally.</p>
	<p>An Attractive and Sustainable Town</p> <p>The environment is Knysna's biggest asset. We need to develop a framework for everyone to follow so that we use our natural resources in a responsible and equitable way.</p>	<p>Protected Areas</p> <p>We will increase our efforts to conserve the sensitive ecosystems on which Knysna relies. This means working with individuals and private property owners, NGOs, and environmental specialists.</p>	<p>Spatial Direction</p> <p>A spatial plan will be completed to guide appropriate development. This specifically includes extensive land use, such as golf courses.</p>	<p>Infill Development</p> <p>Municipal land has been audited and will be used to create more dense, and efficient settlement patterns. Infill schemes, properly regulated, can be used also to give access to people previously excluded from developed areas.</p>	<p>CBD Enhancement</p> <p>A revitalised clean and efficient Knysna CBD (and Selchelds business corridor) will expand business and improve the attractiveness of the area for citizens and visitors.</p>
	<p>A Reliably Functioning Town</p> <p>Citizens should be assured of good Municipal services - roads, water, sanitation & electricity. Good services mean that the town will keep its investors and can offer residents and visitors a proper quality of life.</p>	<p>Bulk Infrastructure</p> <p>The long term demand for services is being assessed. New investment is needed to ensure that water, sanitation & electricity and roads will be economically and efficiently provided. There will be a specific focus on the Knysna Region.</p>	<p>Exploring Service Partnerships</p> <p>The municipality will explore new partnerships with public and private sector entities can be used to improve service quality and contribute towards development objectives.</p>	<p>Service Reviews</p> <p>Attainability and equity with regard to review of the municipality's "range" of services. We will endeavour to provide appropriate standards of service.</p>	
<p>Looking after the money & resources</p>	<p>A Financially Sound Town</p> <p>The prudent investment of public funds and proper management of expenditure to attract additional private sector support.</p>	<p>Revenue Enhancement Realignment</p> <p>A new rates policy based on equity and affordability will be introduced in tandem with a new general valuation roll. A fair policy remains to continue to ensure affordability and sustainability and provide support to indigent households where appropriate.</p>	<p>Expenditure Reform</p> <p>The continuation of targeted capital expenditure to the poor and deprived areas. To be supplemented by more focused and efficient operating expenditures, thereby maximising value for money across the Municipality.</p>	<p>Revenue Collection Credit Control</p> <p>The principles of <i>Makabane</i> will be applied. All citizens should pay for services based on their affordability levels.</p>	
	<p>An organisation based on service</p> <p><i>Batho pele</i> - putting people first, is the slogan to guide us. It applies first to public officials but also has relevance in an economy that relies on tourism and returning visitors.</p>	<p>Operation Placement</p> <p>We are aware of our leadership and developmental role. We therefore need to place the right people in the right jobs and provide ongoing training to improve skills.</p>	<p>Customer Care</p> <p>We will strive to be a transparent municipality. People must be able to raise issues, complaints and suggestions and get a swift response. Every staff member will adopt the <i>Batho Pele</i> principles.</p>	<p>Safe, Healthy & Well Trained Staff</p> <p>We will implement an employee wellness programme and ensure compliance with the provisions of the Occupational Health & Safety Act. Our performance will be enhanced by focused staff training programmes.</p>	
	<p>A town Prepared for the Future</p> <p>The municipality has to find a way of involving all parts of the community. We need a common plan and a commitment to redress imbalances. This is the basis for Knysna 2020.</p>	<p>Knysna 2020 partnership</p> <p>The Municipality will formally structure its relationship with business, civil society, and citizens in a KNYSNA 2020 Partnership. This will provide a forum for common action and for negotiation.</p>	<p>Knysna 2020 Dialogue</p> <p>Successful towns debate the problems they face and the choices they have to make. Knysna 2020 will facilitate an on-going, but structured, conversation about the future of Knysna.</p>	<p>Celebrating Knysna 2020 Successes</p> <p>We want to recognise and honour initiatives and people who contribute to Knysna 2020. Our aim is to achieve our vision of A TOWN THAT WORKS FOR ALL.</p>	
	<p>Listening and learning</p>				



THE TOWN THAT WORKS FOR ALL

KNYSNA AT A GLANCE

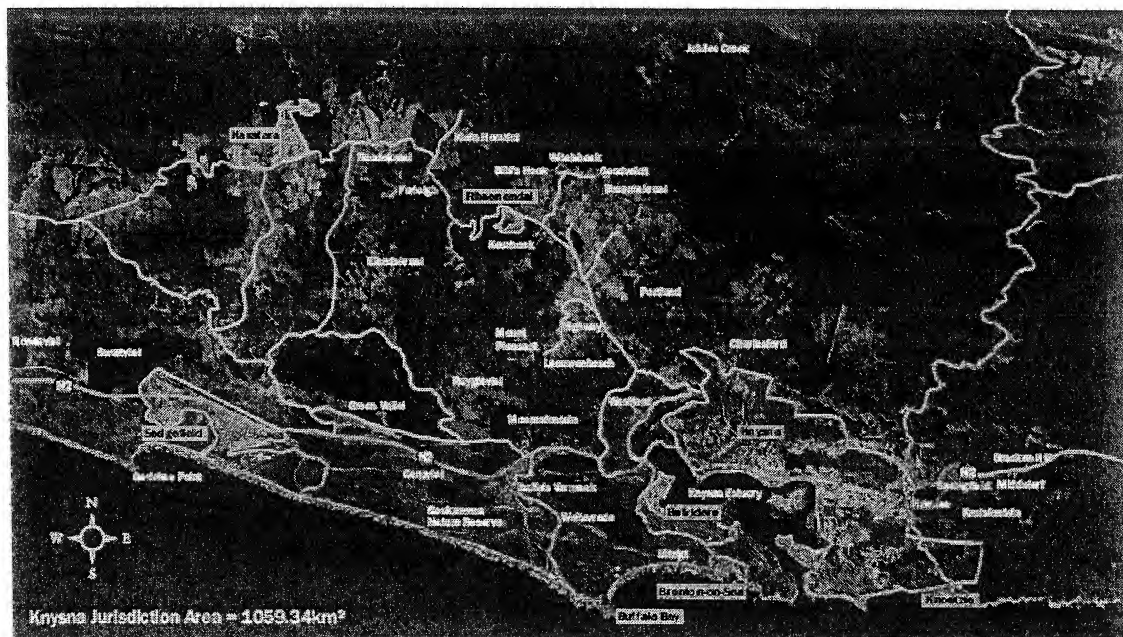
1.3 KNYSNA AT A GLANCE

The following provides a broad geographical, economic and statistical overview of Knysna:

- **Towns and Settlements within the Municipal Boundaries:**
 - Belvidere
 - Brenton
 - Buffels Bay
 - Karatara
 - Knysna
 - Knoetzie
 - Rheenendal
 - Sedgefield
- **Municipal Demarcation Code** : WC048
- **Office Address** : Clyde Street, Knysna, 6571
- **Municipal Area** : 1 059 km²
- **Population (estimate 2004/2005)** : 59 523
- **Educational Institutions** : 3 Secondary Schools;
9 Primary Schools; and
Various Private
Educational Institutions
- **Medical Facilities** : Knysna Private Hospital;
Knysna Provincial Hospital; and
Municipal Clinics
- **Police Stations** : Knysna & Sedgefield
- **Law Court** : Knysna
- **Prison** : Knysna Correctional Centre
- **Informal Houses** : 6051
- **Poor Households** : 6051
- **Main Economic Activities** : Tourism, Construction,
Forestry, Agriculture,
Retail and Light Industries

- **Municipal Budget (original)** : 2005/2006 Operating Budget R192,38 m
2005/2006 Capital Budget R 49,84 m
Total R242,22 m
- **Neighbouring Towns** : George, 60 km West;
Plettenberg Bay, 37 km East
- **District Municipality** : Eden (George)

THIS WOULD BE PRESENTED IN PICTURES OF THE LEADERSHIP AND TOPOGRAPHICAL MAPS OF THE KNYSNA AREA. THE EDITED VERSION WITH ALL THE GRAPHICS WORK WILL HAVE THIS COVERED.



The Greater Knysna Municipal Area is made up of socially and racially diverse communities and a rapidly-growing, predominantly poor population. It is an area blessed with extraordinary environmental resources comprising majestic mountains, vleis, estuaries, indigenous forests, rocky coastlines and beaches. These special environmental attributes form the basis of tourism which contributes between 20% and 22% to the local economy. Knysna town and Sedgefield are the two primary urban settlements where retail and commercial activity are concentrated. On the plateau above the town, Karatara and Rheenendal are two significant population nodes.

In Knysna, the major population concentration is located in the area north of the town generally referred to as the "Northern Areas". Hornlee, located east of Knysna town, is another significant suburb comprised of predominantly middle- to low-income persons. The Eastern and Western shores of the Knysna lagoon are flanked by attractive and well established "suburban" communities. The most significant new residential developments are the Golf Estates at Simola and Pezula and the Marina on Thesen Island. More than 4000 low cost housing units will have to be built in the "Northern areas" over the next 5 years.

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**INSERT LEADERSHIP STRUCTURE AND MAYOR, DEPUTY MAYOR,
DIRECTORS, COUNCILLORS, ETC PICTURES**

CHAPTER 1

1.1 EXECUTIVE MAYOR'S OVERVIEW

It is my pleasure to present the 2005/2006 Annual Report for Knysna Municipality.

The period under review was an eventful year with Municipal Elections in March 2006. I am happy to present a positive report that reflects a financially sound Municipality which for the first time received an unqualified audit report from the Auditor General. The Municipality also received a low A plus rating from the Development Bank of South Africa.

This is particularly important as the Municipality will be faced with growing demands to expand the infrastructure. Our water, sewage, electricity and roads infrastructures are currently under pressure.

Evident throughout the report are the strategies formulated to address the complex challenges with which Knysna Municipality is faced and the commitment of Council to confront these issues with solution-driven action plans.

i. The Integrated Development Plan

The Municipality recognized the need for a delivery driven IDP and during the year under review, the first phase of the strategic action plans was implemented.

The need for social dialogue between all stakeholders was highlighted as part of our strategic vision and during the year under review public participation improved considerably, mainly through the establishment of Ward Committees. "Business re-engineering" processes that analyze the way service delivery departments work were also introduced, resulting in increased service delivery.

Although these programmes are part of different strategic objectives, it is clear that none of the challenges contained in any of the action programmes are mutually exclusive.

ii. Local Economic Development

In the last six years there have been four major economic surveys of the Knysna area, and one of the Eden District Municipality which included Knysna. The results clearly showed that our economy is based on tourism and domestic construction, with a decline in the timber industry.

In support of this Council has, amongst other initiatives, increased its support of Knysna Tourism, and introduced wireless connectivity. Council's involvement with Red Door highlighted a lack of simple business skills in local entrepreneurs and we introduced business training for the community and facilitated the setting up of a business network amongst students, which has proved highly successful.

iii. UniFi Knysna

Over 100 hotspots have been installed across the area allowing public access to the Internet from any WiFi enabled device, both indoors and outdoors, in most public spaces across the town.

The project has already resulted in cost savings for the Municipality. Savings in internal telephone costs alone will allow the project to pay for itself. In addition, the Finance Directorate has already experienced a significant increase in productivity from staff using the Council's mainframe systems.

iv. Service delivery and Budget implementation plans

The Knysna IDP Budget for the financial year under review was the product of extensive review processes over a period of four years. The challenge for management was to translate this planning and the funding allocated in the budget into effective service delivery.

Service delivery priorities have been set out in a five year plan and with the spending of R21,65 million on the provision of infrastructure during the last year, the Council's commitment to meeting these priorities is clearly reflected.

v. Spatial Development

The protection of our unique environment is one of our service delivery priorities as set out in our five year plan. The Spatial Development Framework (SDF) is an important vehicle which will guide growth, development and, in fact, the whole future of Knysna. Guidelines must and will be put in place to ensure sustainable and accountable development that is in keeping with the environment it seeks to protect.

A draft Spatial Development Framework was released in May 2006 for public comment.

vi. Community Based Planning

The Community Based Planning process will be rolled out to our communities for the first time early in 2007.

vii. Housing

The delivery of adequate housing is still one of the biggest challenges facing Knysna Municipality. Rapid economic growth in the area created job opportunities, but also resulted in an influx of people from other areas and an increased demand for housing. The Municipality, in an attempt to deal with this challenge, has built 117 housing subsidy-financed homes and has spent R4,1 million to achieve this target.

It continues to be one of the biggest challenges facing Knysna Municipality and finding solutions, especially in terms of access to land, will be a priority in the new financial year.

viii. HIV/Aids

Knysna Municipality is involved in the prevention of infection and the care of people infected with HIV/Aids through a partnership with the Knysna Aids Council. We will continue to give this matter the commitment and precedence it deserves.

ix. By-laws

Knysna Municipality has a zero tolerance policy and four by-laws were passed by Council during the year and promulgated: a by-Law for the regulation of refuse removal, an animal pound by-law, a by-law for the control of the seashore and the sea situated within our area of jurisdiction, and a by-law pertaining to public nuisances.

x. Flood and funding

I feel it necessary to mention the floods that wreaked havoc in our area during the last quarter of 2006, even if it falls outside the spectrum of this report.

Almost all services were affected and the Municipality declared an emergency in terms of Section 29 of the Municipal Finance Management Act, allowing Council to incur expenditure immediately to alleviate the effects of the emergency.

Estimates to repair or replace damaged infrastructure were staggering and fortunately the Provincial and National Government assisted with a flood relief grant of R31, 8 million.

I must commend the staff of Knysna Municipality for dealing with this crisis so effectively. Dedicated officials worked long hours to help wherever necessary. At times there were Directors manning the call centre, offering moral support to the community and directing emergency and rescue operations.

Work has already started on repairing the damage.

xi. Conclusion

I want to express my sincere appreciation to all the staff of Knysna Municipality for their commitment, dedication and hard work during the past financial year.

Johnny Douglas joined us in the new financial year as Municipal Manager and we welcome him to Knysna and to the Municipality.

With a new year ahead of us, I am confident that the staff and Councillors of Knysna Municipality are well equipped and prepared to create a town in line with our Knysna 2020 vision.

DR DORIS WAKEFORD-BROWN
EXECUTIVE MAYOR

1.1 OVERVIEW BY THE MUNICIPAL MANAGER

Knysna is a complex town with sensitive issues relating to the environment and land which impact on how we can plan and deliver services.

It is clear to see that Knysna has grown considerably over the past couple of years. The total value of building plans submitted in the greater Knysna municipal area during 2005 is R834, 95 million in comparison with R351,56 million in 2002.

The rapid growth of the town, seen against the backdrop of the shortage of developable land, a sensitive environment and the pressure on the road systems, presents a serious challenge to improve the efficiency of our urban systems. The unique and sensitive environment of Greater Knysna is under pressure and projects such as the Spatial Development Framework and the State of the Environment Report will help to ensure environmental sustainability. The challenge is, therefore, how to grow the economic and tax base to provide for Knysna's increasing population without jeopardizing our pristine environment.

During 2004, the organizational structure was adopted in order to bring stability to the administration. All section 57 employees were appointed during the year under review. The population of the organizational structure is a huge challenge for the Municipality due to the difficulty in attracting qualified staff in the fields of Town Planning and Engineering services, despite Council paying a scarce skills allowance. It is our quest to continue to enhance the skills of our staff to ensure effective and efficient service delivery.

We have adopted a system of corporate and individual performance management using the "Balanced Scorecard". The system has sought to define KPAs, indicators and budgets to improve the Municipality's accountability and performance. Service Delivery and a Budget Implementation Plan were also compiled which are directly linked to the Scorecard.

Knysna Municipality is founded on a strong financial base. This sound financial management has enabled the Municipality to structure a budget focused on service delivery whilst recognizing the needs of the indigent. For the year under review, the Knysna Municipality received an unqualified financial report from the Auditor-General as set out in this Annual Report, which indicates a clear commitment and dedication from our staff. I want to compliment and thank our staff in this regard.

We have made good progress with the provision of basic services. For the year under review, the position is as follows:

- **Electricity:** 98% of households use electricity (81% in 2001)
- **Refuse Removal:** 100% of households have access to a weekly refuse removal service (92% in 2001),
- **Sanitation:** 75% of households have access to flush toilets, flush septic tanks or chemical toilets (71% in 2001),
- **Water:** 100% of households have access to clean water (97% in 2001)

Shortage of land for the erection of low cost housing, as well as housing for the middle to medium income groups is a challenge that the Municipality must try and address. In order to meet these challenges, a comprehensive and integrated housing strategy is required and will be a priority in the next financial year.

A solid institutional platform has been built on which to enhance service delivery priorities. We have improved the level of public participation in Municipal Governance and continue to strive to improve our customer service delivery standards.

As the new Municipal Manager, I have been alerted to the gaps in performance and performance management. I will, therefore, continue to develop and implement a culture of urgency and ensure that the Municipality responds to the needs of citizens in an equitable, fair, just, sustainable and financially viable way.

JOHNNY. B. DOUGLAS
MUNICIPAL MANAGER

CHAPTER 2 : PERFORMANCE HIGHLIGHTS

2.1 DIRECTORATE : CORPORATE SERVICES

i. Overview of the Directorate

The Corporate Services Department consists of five sections, i.e. Legal Services, Administration, Committee Services, Human Resources and Property, Insurance & Records. Corporate Services is the secretariat of Council and supports the legislative and executive functions of Council.

ii. Business Process Re-Engineering

During the year under review, a new programme was initiated to train senior management to critically analyze their work methods to ascertain their effectiveness in terms of outcomes to service delivery and their cost-effectiveness.

Three pilot projects were launched in the Parks & Horticulture Section, the Traffic Section and the Public Works Section. The projects are work in progress. During the last year, the Parks & Horticulture Section managed to reduce the grass cutting cycle from an average of 9-10 weeks to a 3-4 week cycle, by using different work methods. Citizens have noticed the remarkable improvement in the open spaces of Knysna and have complimented the section for its outstanding work. The Traffic Section introduced several improvements in their service, inter alia, opening its offices during lunch hours to enable consumers to better access their service and better liaison with the Director Public Prosecutions. The Public Works Section has initiated a "rapid response team" to deal with service emergencies, whilst the department introduced better business planning processes.

iii. Committees and Councillor Support

This section ensures that Council, the Mayoral Committee and the standing Committees meet regularly. Quality agendas are produced tabling items for consideration and information and accurate minutes of resolutions are recorded. During the year under review, 44 meetings were held, and 456 agendas were produced.

Councillor Support is an initiative to ensure that Councillors are trained, capacitated and supported to perform their tasks as elected leaders of local communities. Logistics such as offices, telephones, stationery and agendas are provided and training is given in all aspects of local governance. Councillors participate in structures outside of the Municipality on behalf of Council, interface with organized Local Government and also with communities with the guidance of committee services.

On 1 March 2006, municipal elections were held. This section was responsible for the inaugural meeting of Council at which a Speaker, Executive Mayor and Executive Deputy Mayor were elected. New S80 standing committees were elected to assist the Executive Mayor, who appointed each member of the Mayoral Committee to chair such standing committees. Councillors were given a comprehensive induction manual and intensive orientation and training was provided to them.

The establishment of ward committees was completed prior to the municipal elections. After the elections on 1 March 2006, new ward committees had to be established and detailed public participation took place. Nominations were received from various sectors and elections took place. The process was virtually complete by 30 June 2006. The inaugural meetings will take place early in the current financial year.

iv. Training/Skills Development

The Municipality Workplace Skills Plan was submitted and approved by the Local Government SETA. The Training Committee monitors the compilation and implementation of the Workplace Skills Plan. The municipality paid R470,210 as levies to the SETA and was reimbursed R454,085, which constitutes 96% of the levies paid to the SETA in terms of the Skills Development Services Act.

Knysna Municipality has introduced ABET for illiterate employees to help to alleviate illiteracy in the country and to enhance employee development. This is in line with the national agenda of improving skills levels in the labour market, as this is a prerequisite for economic growth which will be translated into employment creation. 52 of the 86 functionally illiterate employees attend ABET classes.

v. Performance Management:

This is a critical management tool aimed at ensuring that municipal employees deliver on the Municipal Integrated Development Plan. It started with section 57 appointments and, in 2006, it has cascaded down to the second reporting line of managers. The intention is that all municipal employees should participate in a performance evaluation system. Managers in the Corporate and Finance Directorates have already started the process, after which it will be extended to the remaining directorates.

vi. Employee Wellness and Occupational Health and Safety (OHS):

The Municipality is committed to ensuring that its employees are well looked after. As a caring employee, the Municipality held an employee wellness session which gave Municipal employees an opportunity to attend workshops on various issues that could negatively affect employee performance. Such workshops included alcohol abuse, indebtedness, family problems, HIV/AIDS etc. Attendance was good.

The Municipality is also committed to ensuring a safe and healthy environment for its employees. The Occupational Health and Safety Committee meet every month to deal with OHS issues throughout the whole organization.

During the latter part of the 2005/6 financial year, the Municipality was audited on Health and Safety matters and obtained a 3-star IRCA grading, which is a great achievement. Injuries on duty have substantially decreased as a result of OHS interventions.

vii. Diversity Management

The Municipality is aware of the positive contribution that can be made by a diverse workforce if they are well managed, hence its intention to expose all its employees to diversity awareness programmes to enable them to appreciate and exploit strengths that are presented by diversity.

About 230 employees were exposed to diversity awareness programmes. A survey was conducted to assess whether these diversity programmes have achieved the set objectives and the results showed a positive change of attitude from those employees who were exposed to diversity programmes as opposed to those who were not.

viii. Records, Contracts and Property Management

In line with a quest for a paperless working environment, during the year under review, the Collaborator document management system was installed to ensure the smooth and effective flow of information. The Collaborator system for the handling of mail is now fully installed and is in use. Overall, the records department is conforming to the standards as required by the Archives Act.

The product specification for the managing of Contracts on the Collaborator system has been approved and the software will be installed in the forthcoming year. This will allow the Municipality to have better control over the management of Contracts.

A database to identify Municipal properties has been installed and at this stage, it is possible to identify all Council properties in the Knysna Municipal area. An update of the system, to incorporate more information regarding the land, i.e. zoning, extent etc, is in full swing.

ix. Legal Services

The legal section ensures that the Municipality conducts its affairs within the parameters of legislation. It monitors compliance with legislation.

It is also responsible for drafting By-Laws for adoption by Council, advertising them for public comment and promulgation in the Government Gazette. Four by-laws were passed by Council during the year and promulgated, which included a By-law for the regulation of Refuse Removal, a Pounds By-law, a By-law for the control of the seashore and sea situated within the area of jurisdiction of the Knysna Municipality, and a By-law for public nuisances.

Legal advice is given to Council, the Mayoral Committee, S80 Committees and officials to enable them to confidently fulfill their functions. The Council can only function effectively if it systematically delegates authority to its Executive Mayor and its officials. The legal section coordinated the review of a Delegation of Powers Register, which was adopted by Council. The legal section reviewed a document dealing with the Roles & Responsibilities of office-bearers.

Whilst the Municipality does not plan to be involved in litigation, this is often unavoidable. During the year under review, substantial amounts were spent on litigation flowing from labour law matters, contractual disputes and town planning matters.

Administrative justice is fundamental to Council as a sphere of Government. The legal section ensures that all decisions meet the fundamental principles of natural justice and fair play. In addition, access to information is provided at the request of interested parties.

x. Fleet Management

During the year, the current fleet management processes were critically analysed to establish any weaknesses. As a result of this, a new Fleet Management Policy & Procedure was formulated and adopted by Council. In addition, the Municipality will procure new fleet management software to ensure more effective monitoring of the fleet of motor vehicles, to improve efficiency and to minimise losses in fuel, maintenance and premature replacements.

2.2 DIRECTORATE : COMMUNITY SERVICES

i. Heritage

Development of the Old Gaol and the Knysna Museum Complex into a more inclusive and interactive Heritage site to attract locals is due for completion. This is a significant project in the context of tourism product development.

ii. Libraries

A Library Depot has been opened at Kayaletu. This has been an outstanding success with tremendous public usage and involvement in all facets, i.e. family literacy, basic computer classes and story telling.

A preschool to promote early learning development is amongst special projects which have been launched and the Municipality is already reporting great success.

The following table reflects the library statistics:

Specific Area	Target	Actual	Variance	Comments
Total number of new members registered	3 000	3 400	400	Opening of Kayaletu Library Depot as well as general growth has exceeded expectations
Total number of items issued	424 800	380 000	44 800	Amount of in-house use has increased exponentially so that books have to put on reserve, i.e. not issued, so that more learners can use them in the library
Total number of Study items issued	3 000	3 100	100	Distance learners and home schooling has increased
Number of Computer users	1 932	1 861	71	The opening of Red Door has resulted in a big drop but this will be more than corrected by the growing usage by school pupils
Time spent on Internet	1 000	1 200	200	The time spent by each individual user is growing constantly. The first half hour is free, thereafter a charge of R15 per 30 min is levied
Extent of volunteer involvement days worked	120	220	100	It is not possible to predict this as it is, to a large extent, dependent on the goodwill of the public
No of active Museum projects	120	120	0	None
Total No of visitors of the Museums	12 000	12 800	800	Measurement of the Museum is changing as the ethos and planning of the museum is developing. The intention is to make the whole complex more inclusive in terms of Knysna's history and people, and plans are at an advanced stage. In addition, work is being done to improve the elephant display and, with help from SANParks, more is expected.

iii. Housing

Housing provision continues to be one of the biggest challenges facing Knysna Municipality. It is estimated that some 6000 families live without adequate services and shelter.

The property development in the higher income areas, such as Thesen Island, Pezula, Simola, etc has resulted in job expectations with the influx of a large number of people seeking job opportunities. This has resulted in an ever increasing demand for low cost housing and thus created complex challenges for the Municipality regarding its capacity to deliver on this demand.

During the year, R4 145 299 was spent on low cost housing with the National Government funding R2 810 979 and the Municipality R1 334 320 out of its own coffers. 117 housing subsidy-financed homes were built whilst a further R21 653 990 was spent in providing services to new erven that were previously not serviced.

iv. Community Safety

Knysna Municipality has ensured that the Community Policing Forums are fully functional. In all areas of Knysna, these community policing forums are helping to facilitate co-operation between the police and the communities. This is very crucial, given the fact that during the year under review the Municipality has experienced an unprecedented increase in the number of petty crimes and house break-ins.

Whilst the level of crime in Knysna was given adverse publicity on a national TV programme, this is not a problem that affects Knysna only. Crime in South Africa is generally at an unacceptably high level.

It is hoped that the Community Police Forums will provide some impetus in the reduction of crime.

v. Waste Management

The following projects were undertaken during the year 2005/06: the development of an Integrated Waste Management Plan for Greater Knysna, the identification and development of Garden and Builders Rubble Sites for Knysna and another site for Sedgefield.

Domestic and business/commercial waste are compacted and containerized at the Transfer Station and transported via rail to the Petro SA Waste Disposal Facility in Mossel Bay. A total of 13 884 tons of waste has been transported via the rail to Petro SA during the year under review.

The biggest challenge faced by the Department is the Sedgefield Builders Rubble Landfill located between the suburbs of Myoli Beach and the mouth of the Swartvlei River, which has been in informal operation for approximately 16 years. This has led to protracted disputes between developers and the Municipality, which has ended in the High Court with huge costs for the Municipality. This is a post balance sheet issue.

vi. Waste Recycling

The two bag kerb-side recycling system is very successful and sustainable. The removal of recyclable waste from the stream ensures a saving on waste transport costs while creating jobs at the recycling centre. A total of 1965 tonnes of recyclable materials has been processed this year.

vii. Cemeteries

A comprehensive study of cemeteries was undertaken by Knysna Municipality. There are some key issues that directly flow from the study and these are mainly related to capital expenditure. For the year under review, Knysna Municipality has spent an amount of R 19 000 to upgrade the Bongani Cemetery.

2.3 DIRECTORATE : ELECTRICITY

A total of 95% of all formal residential areas have access to electricity and street lighting. There are, however, huge bulk electricity demands with which Knysna Municipality is currently trying to contend by providing adequate capital budget to spend on electricity.

As part of ESKOM's Demand Management Programme, and the Municipality's energy saving interventions, during the year under review Knysna Municipality deployed additional infrastructure to the value of R1,6 million, of which R800 000 was paid for by ESKOM.

This energy technology has helped Knysna Municipality to reduce the voltage on streetlights and thus the amperage. In quantity, this has been a reduction from 230 volts to 207 volts, which has meant R100 000 of annual savings on energy usage for streetlights.

ELECTRICITY SERVICE DELIVERY BACKLOGS

	30 June 2004			30 June 2005			30 June 2006		
	Req	Budgeted	Actual	Req	Budgeted	Actual	Req	Budgeted	Actual
Backlogs to be eliminated (No HH not receiving minimum standard of service)	150	150		150	150		100	100	
Spending on new infrastructure to eliminate backlogs	795 000	795 000		795 000	795 000		650 000	650 000	
Total spending to eliminate backlogs	795 000	795 000		795 000	795 000		650 000	650 000	

2.4 DIRECTORATE : OPERATIONS

i. Public Works Section

For the 2005/2006 financial year, the following projects were undertaken by the Public Works section of the Town Engineer's Department:

Completion of Flenters sports field, Ward 4	-	R1 050 000
Fencing of Smutsville sports field, Ward 1	-	R 100 000
Completing of ablution facilities and netball field, Ward 2	-	R 430 000
Upgrading Hornlee sports field, Ward 4	-	R 350 000
Completion of further phase of Sedgfield CBD		
Storm water, Ward 1	-	R 620 000
A start was made with the construction of		
Taxi lay-byes in Ward 8	-	R 420 000
New Community Hall for Damsebos, Ward 7	-	R1 530 000

From the above it can be seen that projects were spread throughout the Greater Knysna area resulting in job creation. These contracts were awarded in accordance with the Council's procurement policy which ensures preference is given to BEE initiatives.

No funds were available for road construction or major storm water improvements for 2005/2006. Currently all properties have road access. There is a backlog of 48km in surfacing of gravel roads which is estimated to cost R56 million in the Greater Knysna area. Rural roads are excluded. As funds have been allocated, with water and sanitation projects a receiving priority, no funds were available for roads and storm water.

The late approval of funds for the December 2003 storm damage (R7 million) and the Knysna Taxi rank (R5,2 million) strained the years' capital expenditure. However, the section was very grateful to undertake these projects for the community. The two projects represented a 35% increase in the capital program with which the staff coped admirably.

The Town Engineer's Department is severely hampered by a shortage of staff and they have been unsuccessful in recruiting technical and middle management personnel. This trend is expected to continue as technical staff will always gravitate to the major centres, particularly in view of the capital projects planned for the 2010 World Soccer Cup.

Despite this shortage of staff, 100% expenditure of the maintenance budget was achieved. Capital budget not spent were on those projects which were not completed at the financial year ends and those funds will be carried over to the 2006/2007 financial year.

ii. Water and Sewer Section

Water restrictions were applicable for 2005/2006 due to the limited capacity of the Knysna and Sedgfield water treatment works. Investigations continued to secure the raw water supplies for the short-term and longer-term needs of Knysna and the growing demand for water.

Additional boreholes were brought on-line for the Sedgfield supply and staff were able to cope in the peak season. Planning continued with a feasibility study of a raw water supply, namely an off channel storage dam on the farm Swartriver, and the upgrading of the Sedgfield water treatment works. The existing water treatment works on the Karatara River is at risk during flooding, which occurred again in the August 2006 storms. As a result of this event, flood relief funds have been secured to relocate the treatment works and planning is proceeding for this project.

Unfortunately, until water supplies for Sedgfield have been secured and assured, the Council is not able to approve water supplies for any new developments in Sedgfield. Obviously those

properties which already have existing development rights will be permitted to continue with normal building operations.

The project for the expansion of Knysna Water treatment works was approved for this financial year and construction commenced in April 2006. It was planned to have the additional treatment capacity on line by the end of November 2006, but the August 2006 weather has caused severe delays. Despite the growth in the town, the demand for water has remained within acceptable limits and the department expresses its appreciation to the public for their co-operation.

- **Water**

The Knysna Water Treatment works was upgraded from 11M/ per day to 22M/ per day. The new plant should be fully operational by March 2007. Normal domestic consumers receive the first 6kl of water free and prepaid consumers, in the northern suburbs, receive the first 8kl for free. There are currently no backlogs and new water connections are addressed with the roll out of housing projects. All informal housing has been served with standpipes within a 200m radius.

Water pipe breaks mainly occur due to the age of the network. Currently we are busy with a programme to upgrade and replace these water pipes. This is a continuous programme, which is carried out as and when funds become available. We also experience breakages from time to time due to damages caused by private contractors. Areas like Hunters Home, Hornlee, etc are without a continuous supply of water:

Hunters Home

The main problem in Hunters Home is that of storage capacity. At the moment, Hunters Home is fed via the Old Place Reservoir with only one supply pipeline. Over the last 12 months particularly, we have had quite a few breaks in this pipeline, which caused Hunters Home to be out of water (storage capacity). This capacity problem was previously addressed in capital budget requests. Approval of such a budget has now become critical.

Hornlee

Most problems experienced in Hornlee are in the higher-lying areas of Rykmanshoogte (Crest Street, etc). Due to the elevation, pressure problems are experienced from time to time. This area is fed from Bongani pipeline. When problems are experienced with this pipeline or the Old Place reservoir, Crest Street is switched on to low pressure to supply/maintain the Bongani/Khayaletu area. An elevated tank is proposed to solve this problem in the short-term until the reservoir in Heidevallei is built. All these projects have been included in our capital budget requests.

Bongani/Khayaletu

The higher-lying areas of Bongani (next to the reservoir) experience water shortages from time to time when problems are encountered with the Bongani supply pipeline or Old Place pump station. The upgrading of the pipeline between Concordia and Bongani reservoirs is proposed, which will ensure a reliable alternative supply. This was requested in our capital budget.

- **Shortage of raw water**

The shortage of raw water is mainly experienced during the peak season when the demand rises above the supply. All the raw water supply pipelines were recently pigged, resulting in more efficiency in the pipelines. Gouna pump station was successfully upgraded recently. Presently we are only withdrawing 105/ per second from Knysna River although our license allows for 123/ per second. In order to increase the withdrawal to 123/ per second we have to upgrade Eastford pump station. This will more or less balance out our demand/supply during peak season and also increase storage capacity during the off-peak season. The upgrading of Eastford pump station

was requested in our capital budget. Raw water studies for future supplies were also undertaken by consultants.

- **Sewerage**

26 buckets have been eliminated this year (10 in Knysna and 16 in Rheenendal). According to building plan submissions for normal domestic properties, ±194 households have been connected this year. ±190 sewer services were installed in the northern areas, but are only connected when housing subsidy-financed homes are finished.

- **Plant capacity problems**

It was determined, from investigations done at the end of 2005 that the Activated Sludge Plant is operating close to its capacity (90% of design capacity). At the current rate of growth, the existing plant will reach its capacity in 2008. Despite good performance, the plant is showing signs of incipient failure brought on by a shortage of sludge dewatering facilities. This results in an unstable sludge age and excessive sludge concentration, which in turn results in reduced biological performance. The Sequential Batch Reactor treats waste from Hornlee for use as irrigation water at Sparrebosch. This waste is unable to meet the effluent standards for discharge into the lagoon and can therefore not be relied upon to supplement the Activated Sludge Plant, which must therefore be upgraded. This project was submitted as a compulsory request on the capital budget.

ii. Building Inspectorate

The following are the statistics for building plans:

	No of Plans	Value of building plans
2003/04	1165	781 150 584
2004/05	1051	759 951 525
2005/06	882	728 950 055

2.5 DIRECTORATE : TOWN PLANNING

The period 2005-2006 saw a number of staff changes in the Department. It was a challenging year again in respect of the prioritization of the focus of the department due to a number of contrasting demands, for example, forward planning versus statutory processing of applications.

i. Staff

The department currently has 5 unfilled posts. During most of the year, the Municipality operated without an Environmental Coordinator which place it at a disadvantage when dealing with environmental issues, such as the sand stock pile opposite Ashmead Resort.

Efforts to recruit and retain town planners were largely unsuccessful.

ii. Major Land Use Applications

During the period 1 July 2005 to 30 June 2006, 117 major land use applications (i.e. applications for rezoning and/or subdivision) were received. Of these, 37 were finalized within the same period. During the reporting period, a total of 97 major land use applications were finalized (including applications submitted prior to the reporting period). As such, an average of 10 applications were received per month (one every second working day) and 8 applications were dealt with per month (one every three working days).

During the period August to November 2005, the backlog was being reduced at a rate of 5 per month. With the resignation of a town planner at the end of 2005, the situation reverted to a growing backlog, but at a lower rate of an average of just under two applications per month.

Some of the applications submitted to Committee within the period July 2005 to June 2006 include:

ERF NO	ADDRESS	PURPOSE OF APPLICATION
Erf 1659	Sedgefield, Kingfisher Drive	Consent use and subdivision to permit 24 group housing units
Erf 335, 336, 337	Knysna, Agnar Street, Westhill	Rezoning to permit 7 group housing units
Erf 2851, 6705	Knysna, Main Street, Central	Departure to permit additional business floor factor, Knysna Mall shopping centre
Erf 663	Knysna, Rawson Street, Central	Rezoning from single residential to business, to permit a Laundromat and 24 flats
Erf 164	Sedgefield, North Service Road	Rezoning from business to general residential to permit 15 flats
Erf 4396	Sedgefield, Montage Village	Rezoning from business to general residential to permit 16 flats
Erf 9242 & 9828	Knysna, Simola Estate	Amendment of master plan and rezoning to permit replacement of a dwelling and 5 golf lodges with an additional 20 hotel rooms
Erf 424	Brenton, Steenbras Street	Rezoning to permit 8 flats

iii. Planning projects

The Knysna Municipality State of the Environment (Year One) project was completed in June 2005.

After a series of in-house workshops from September to November 2005, and revisions arising from the adoption of the Provincial SDF, in May 2006 Council endorsed the release of the Draft Spatial Development Framework for the Knysna Municipality for public comment.

2.6 DIRECTORATE : FINANCE

For the year under review, please refer to the CFO's report contained in the financial statements attached to this report.

ACTUAL VERSUS BUDGET FOR THE YEAR ENDED 30 JUNE 2006

	2005/2006	Actual	Original Budget	Original Variance	2005/2006 R	(%) R	Adjusted Budget	Adjusted Variance	2005/2006 R	(%) R	Adjusted Variance	Explanation of Significant Variances greater than 10% versus Budget
EXPENDITURE		R	R	R	R	R	R	R	R	R	R	
Salaries and Allowances	62 893 538	-	68 736 180	5 842 642	9%	68 354 680	5 461 142	8%				
General expenses	99 449 705		99 075 150	(374 555)	0%	102 065 320	2 615 615	3%				
- Purchase of Electricity	30 487 262		31 220 060	732 798	2%	31 150 060	662 798	2%				
- Purchase of Water	-		-	-	0%	-	-	0%				
- Outsourced Functions	3 787 011		3 191 300	(595 711)	-19%	3 547 180	(239 831)	-7%				
- Interdepartmental Charges	20 819 320		20 819 320	-	0%	20 819 320	-	0%				
- Other General Expenses	44 356 113		43 844 470	(511 643)	-1%	46 548 760	2 192 647	5%				
Repairs and Maintenance	11 269 501		13 787 860	2 518 359	18%	12 581 190	1 311 689	10%				Due to the late drawing down of 2004 / 2005 and 2005 / 2006 loans.
Capital Charges	23 456 771		27 350 060	3 893 289	14%	27 350 060	3 893 289	14%				
Contributions to Capital Outlay	1 096 631		1 338 860	242 229	18%	1 208 860	112 229	9%				
Contributions from Funds	4 000 550		2 615 330	(1 385 220)	-53%	4 165 330	164 780	4%				TASK salary restructuring process did not happen in 2004 / 2005.
Sub Total	210 441 385		213 200 020	2 758 635	1%	223 726 680	13 285 295	6%				
Less: Amounts charged out	(20 819 320)		(20 819 370)	(50)	0%	(20 819 370)	(50)	0%				
Nett Expenditure	189 622 065		192 380 650	2 758 585	1%	202 907 310	13 285 245	7%				
Operating Surplus	12 060 219		3 930	(12 056 289)		4 220	(12 055 999)					

ACTUAL VERSUS BUDGET FOR THE YEAR ENDED 30 JUNE 2006

	2005/2006 Actual	2005/2006 Original Budget	2005/2006 Original Variance	2005/2006 Original Variance (%)	2005/2006 Adjusted Budget	2005/2006 Adjusted Variance	2005/2006 Adjusted Variance (%)	Explanation of Significant Variances Variances greater than 10% versus Budget
REVENUE								
- Assessment Rates	59 137 010	56 197 890	(2 939 120)	-5%	59 097 890	(39 120)	0%	
- Penalties on Rates	780 610	637 930	(142 680)	-22%	637 930	(142 680)	-22%	Better than expected payment levels by debtors.
	119 624 932	114 276 970	(5 347 962)	-5%	114 276 970	(5 347 962)	-5%	
- Electricity	64 738 826	61 040 170	(3 698 656)	-6%	61 040 170	(3 698 656)	-6%	
- Water	28 683 411	27 336 450	(1 346 961)	-5%	27 336 450	(1 346 961)	-5%	
Sewerage	12 968 418	13 383 040	414 622	3%	13 383 040	414 622	3%	
- Refuse	12 585 454	12 204 270	(381 184)	-3%	12 204 270	(381 184)	-3%	
- Other Service Charges	648 822	313 040	(335 782)	-107%	313 040	(335 782)	-107%	Fire Brigade Fees (127,400), and Burial Fees (71,410), Housing Rentals (122,540) up on Budget
- Building Control	2 506 629	2 357 460	(149 169)	-6%	2 357 460	(149 169)	-6%	
- Connection Fees	2 280 237	2 340 440	60 203	3%	2 340 440	60 203	3%	
- Rentals	1 721 271	1 890 490	169 219	9%	1 890 490	169 219	9%	
- Interest Received External	4 940 788	5 411 820	471 032	9%	5 411 820	471 032	9%	
- Interest Received Debtors	2 331 089	1 816 980	(514 109)	-28%	1 816 980	(514 109)	-28%	Better than expected payment levels by debtors.
- Fines	1 169 237	3 076 080	1 906 844	62%	3 076 080	1 906 844	62%	Delays with the traffic tender
- Licenses & Permit	2 839 786	2 824 580	(15 206)	-1%	2 824 580	(15 206)	-1%	
- Agency Service	145 033	282 870	137 837	49%	282 870	137 837	49%	Administration Fees Service to Public - Electricity (79,400) Council General (45,000) down on budget
- Other Income	2 119 117	1 879 510	(239 607)	-13%	1 914 510	(204 607)	-11%	Skills Development Levy Refund (332,206) up on budget
Sub Total Grants and Subsidies	199 595 738	192 993 020	(6 602 717)	-51%	195 928 020	(3 667 717)		
	20 033 636	13 249 000	(6 784 636)		20 840 950	807 314	4%	

- Central Government	10 126 991	10 470 000	343 009	3%	11 053 410	926 419	8%
- Provincial Government	9 906 645	2 779 000	(7 127 645)	-256%	9 787 540	(119 105)	-1%
- District Council	-	-	-		-	-	
Income Foregone	(17 947 089)	(13 857 440)	4 089 649	-30%	(13 857 440)	4 089 649	-30%
Nett Income	201 682 284	192 384 580	(9 297 704)	-5%	202 911 530	1 229 246	1%

Due to the inclusion of areas previously not rated. (Hornlee West)

QUARTERLY INFORMATION REGARDING GRANTS RECEIVED FOR 2005/2006

	QUARTER				TOTAL
	Q1	Q2	Q3	Q4	
CAPITAL	-4,649,845.17	-14,048,229.79	-8,714,782.28	-6,152,931.24	-33,565,788.48
OPERATING	-3,653,809.44	-4,456,929.84	-9,538,841.74	-2,384,054.65	-20,033,635.67
GRAND TOTAL	-8,303,654.61	-18,505,159.63	-18,253,624.02	-8,536,985.89	-53,599,424.15

CHAPTER 3 : HUMAN RESOURCES AND OTHER ORGANISATIONAL MANAGEMENT

i. Introduction

The objective of the Human Resources Department is to ensure that Municipal Human Capital is utilized effectively and efficiently to achieve the strategic objectives of the Municipality as enshrined in the Integrated Development Plan.

ii. Overview

During the 2005/06 financial year, the Municipality appointed 99 employees in various departments. All appointments were based on both the service delivery needs and the Municipal Employment Equity Plan. The biggest challenge is the attraction of scarce skills. To avert this, the Municipality has since introduced a scarce skills allowance. The Employment Equity Committee is active and monitors the Employment Equity Plan process. The Employment Equity Report was submitted to the Department of Labour.

iii. Number of staff per function expressed as total positions and current vacancies (e.g. water, health, transport, sanitation, finance, planning etc). Expressed as full time staff equivalent. Also expressed in gender and race.

Occupational Levels	Male				Female				Total
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Top management	1	1	1	2				1	6
Senior management	2	3		11		1		4	21
Professionally qualified and experienced specialists and middle-management	5	13		6	2	8		8	42
Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents	18	44		16	4			1	83
Semi-skilled and discretionary decision making	32	36		7	29	33		15	152
Unskilled and defined decision making	142	151		5	12	10			320
TOTAL PERMANENT	200	248		47	49	52		29	624
Non-permanent employees	18	23			13	11			65
TOTAL	218	271	1	59	62	63		29	689

Table : Current Employment Profile

iv. Terminations

Occupational Levels	Male				Female				TOTAL
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Top management									
Senior management								1	1
Professionally qualified and experienced specialists and middle-management		2		2	1				5
Skilled technical and academically qualified workers, Junior management, supervisors, foremen and superintendents.	2	3		1					6
Semi-skilled and discretionary decision making		2		2					4
Unskilled and defined decision making	6	2							8
TOTAL PERMANENT	8	9		5	1			1	24

People with disabilities	-	-	-	-	-	-	-	-	-
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v. Recruitment

Occupational Levels	Male				Female				Total
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Top management				1					1
Senior management									
Professionally qualified and experienced specialists and middle-management	1	1		1	3	2			8
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	3	4		4	1	1			13
Semi-skilled and discretionary decision making	14	11		1	12	6		5	49
Unskilled and defined decision making	15	12				1			28
TOTAL PERMANENT	33	28		7	16	10		5	99
People with disabilities	-	-	-	-	-	-	-	-	-

Table: Recruitment categories from 1 July 2005 to 30 June 2006

vi. Disclosure concerning Councillors, Directors and Senior Officials

Remuneration of the Municipal Manager	
Annual Remuneration	426 240
Performance Bonus	94 500
Car Allowance	112 896
Contribution to UIF, Medical and Pension Funds	126 643
TOTAL	760 279

Remuneration of the Director Finance	
Annual Remuneration	410 460
Performance Bonus	66 150
Car Allowance	60 000
Contributions to UIF, Medical and Pension Funds	125 821
TOTAL	662 431

COUNCILLORS REMUNERATION (MFMA 124 (1)(a))	
Mayor's allowance	275 547
Deputy Mayor's allowance	241 113
Speaker	242 988
Councillors' allowance	849 783
Mayoral Committee allowance	307 997
TOTAL	1 917 427

Remuneration of Individual Executive Directors			
	Corporate	Community*	Operations**
Annual Remuneration	372 464	86 763	34 147
Performance Bonus	66 150	-	-
Car Allowance	99 996	17 708	1 927
Contributions to UIF, Medical and Pension Funds, etc	124 343	24 237	1 098
TOTAL	662 954	128 708	46 172

* For 1st quarter only – post vacant for 9 months

** For 1 month only – post only filled from 1 June 2006

The Executive Mayor, Deputy Executive Mayor, Speaker and Mayoral Committee members are full time. Each is provided with an office and secretarial support at the cost of the Council. The Executive Mayor has the use of Council owned vehicles for office duties.

CHAPTER 4 : AUDITED STATEMENTS AND RELATED FINANCIAL INFORMATION

KNYSNA

MUNICIPALITY



FINANCIAL STATEMENTS

30 JUNE 2006

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GENERAL INFORMATION

MEMBERS OF THE EXECUTIVE MAYORAL COMMITTEE

[as at 30 June 2006]

Dr J Cole	Executive Mayor
T Wakeford - Brown	Deputy Executive Mayor [Chairperson: Finance and Corporate Services Committee]
E R J Bouw	Executive Councillor [Chairperson: Public Amenities and Housing Services Committee]
N E Koti	Executive Councillor [Chairperson: Social Services Committee]

AUDITORS

Auditor-General
Private Bag X96, Bellville 7535

BANKERS

ABSA Bank Limited
P O Box 1406, Knysna
6570

REGISTERED OFFICE

Civic Centre
Queen Street
Knysna

P O Box 21
Knysna
6570

Tel 044 - 302 6300
Fax 044 - 302 6333

MUNICIPAL MANAGER

Mr DP Daniels

DIRECTOR FINANCIAL SERVICES

Mr GS Easton



2005 / 2006

MEMBERS OF THE KNYSNA MUNICIPALITY

WARD	COUNCILLOR	
1	Wakeford - Brown	T
2	Jule	M L
3	Matungana	A G
4	Loliwe	S R
5	Botha	J K A
6	Kemoetie	D J
7	Koti	N E
8	Molosi	V M
Proportional	Botha	C G
Proportional	Bouw	E R J
Proportional	Cole	J Dr
Proportional	Dawson	R A
Proportional	Joyi	W
Proportional	Mccombi	H J
Proportional	Oktober	R E
Proportional	Wolmarans	G

APPROVAL OF FINANCIAL STATEMENTS

I am responsible for the preparation of these annual financial statements, which are set out on pages 1 to 36, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

It is hereby certified that the salaries, allowances and benefits of Councillors as disclosed in note 16 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

DP Daniels

Daniels DP

Municipal Manager

29 August 2006

Date

**REPORT OF THE AUDITOR-GENERAL TO THE COUNCIL ON THE FINANCIAL
STATEMENTS OF KNYSNA MUNICIPALITY
FOR THE YEAR ENDED 30 JUNE 2006**

1. AUDIT ASSIGNMENT

The financial statements as set out on pages ...6... to ...27..., for the year ended 30 June 2006, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996, read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004) and section 126(3) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003). These financial statements are the responsibility of the accounting officer. My responsibility is to express an opinion on these financial statements, based on the audit.

The supplementary schedules set out on pages 28 to 36 of the financial statements are presented as additional information. These schedules have not been audited and accordingly, no opinion is expressed thereon.

2. SCOPE

The audit was conducted in accordance with the International Standards on Auditing read with General Notice 1512 of 2006, issued in Government Gazette No. 29326 of 27 October 2006. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements
- assessing the accounting principles used and significant estimates made by management
- evaluating the overall financial statement presentation.

I believe that the audit provides a reasonable basis for my opinion.

3. BASIS OF ACCOUNTING

The municipality's policy is to prepare the financial statements on the entity specific basis of accounting as described in note 1.1 to the financial statements.

4. AUDIT OPINION

In my opinion, the financial statements have been prepared, in all material respects, in accordance with the basis of accounting described in note 1.1 to the financial statements and in the manner required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003)(MFMA).

5. EMPHASIS OF MATTER

Without qualifying the audit opinion, attention is drawn to the following matters:

5.1 LEAVE PROVISION

The validity and accuracy of the leave provision amount of R3 038 824 at year-end, could not be validated as the basis and assumptions used by management in the calculation thereof, could not be submitted for audit purposes.

5.2 CONTINGENT LIABILITIES

In certain instances the security provided for the municipality's employees was not cancelled upon the termination of the person's employment. The result is an overprovision for contingent liabilities of R144 000.

5.3 POLICY

The municipality has not adopted a fraud prevention policy, as is required to ensure that losses are prevented as referred to in S62(1)(d) of the MFMA.

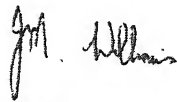
5.4 TAXATION COMPLIANCE

The municipality has not received confirmation that its regulation 2570 VAT formula has been approved by the South African Revenue Services (SARS). Management have submitted the calculation to SARS and although follow-ups are being carried out the issue is not being brought to finalisation.

The IRP 501 reconciliation as required by the fourth schedule of the Income Tax Act, was not submitted to SARS on time.

6. APPRECIATION

The assistance rendered by the staff of Knysna Municipality during the audit is sincerely appreciated.



J M Williams
for Auditor-General

Cape Town

30 November 2006



AUDITOR-GENERAL

Director: Financial Services Report

I am pleased to present the financial report for the fiscal year 2005 / 2006.

In rendering a corporate financial management service to all departments, the Finance Department's primary objective is to assist the Municipal Manager and Senior Management to manage their budgets and ensure the effective application of financial resources in rendering services to the community.

The financial statements for 2005 / 2006 have been prepared in accordance with the IMFO standards and incorporate the edicts required in Sections 122 to 125 of the Municipal Finance Management Act.

The more salient features of the Council's operating activities are dealt with below.

1. OPERATING RESULTS

Details of the operating results per department, classification and object of expenditure are included in appendices D and E. The applicable statistics are shown in appendix H. The overall operating results for the Rates & General, Housing and Trading Services for the year ended 30 June 2006 are as follows:-

INCOME	Actual 2005 R	Actual 2006 R	Variance 2005 / 2006 %	Budget 2006 R	Variance Actual / Budget %
Opening surplus	13,841,954	4,985,415		-	
Operating income for the year	174,614,698	201,682,284	15.50%	202,651,530	(0.48)%
	188,456,651	206,667,699		202,651,530	
EXPENDITURE					
Operating expenditure for year	175,115,011	189,622,065	8.28%	202,647,310	(6.43)%
Sundry transfers	8,356,225	5,247,020	(37.21)%	-	
Closing surplus	4,985,415	11,798,614	136.66 %	4,220	
	188,456,651	206,667,699		202,651,530	

The operating surplus for the year is mainly due to under expenditure, of Salaries R 5,4 m, Capital Charges R 3,9 m, General Expenses R 2,6 m and Repairs and Maintenance R 1,3 m.

All expenditure categories with the exception of Repairs and Maintenance, Capital Charges, Grant Expenditure and Contributions from Funds are within the 10 percent ratio as established by the Western Cape Provincial Government. The overall saving on Capital Charges is due to the late drawing down of 2004 / 2005 and 2005 / 2006 loans. The budgeted Contributions from Funds did not occur as the TASK salary restructuring process did not happen in 2004 / 2005. The reasons for the under expenditure/saving on Repairs and Maintenance and Grant Expenditure will be given under the relevant overall service.

The Council's accumulated surplus has increased from R 5 m to R 11,8 m during the year. The increase is due to the operating surplus of R 12,1 m and an adjustment in respect of working capital provision of R 4,5 m, as set out in Appendix E.

1.1 RATE AND GENERAL SERVICES

	Actual 2005 R	Actual 2006 R	Variance 2005 / 2006 %	Budget 2006 R	Variance Actual / Budget %
Income	89,386,231	103,594,284	15.90%	106,655,090	(2.87)%
Expenditure	103,668,845	113,401,892	9.39%	122,280,540	(7.26)%
(Deficit)	(14,282,614)	(9,807,608)	(31.33)%	(15,625,450)	(37.23)%
(Deficit) as % of total income :	(15.98)	(9.47)		(14.65)	

Director: Financial Services Report (Continued)

The above figures indicate income realised a shortfall against budget of R 3,1 m whereas the expenditure was R 8,9 m below estimate.

The main reasons for the loss of income was in respect of collections which did not materialise due to delays with the traffic tender and a increased rebate cost on rates and refuse due to the inclusions of areas not previously rated.

The saving on expenditure was as a result of Salaries: R 4,5 m, General Expenses: R 1,6 m, Repairs and Maintenance: R 1,1 m, Grant Expenditure: R 1,1 m and R 1,6 m on Capital Charges. The Repairs and Maintenance under expenditure is due to improved operational practices primarily in the IT and Mechanical Workshop departments. Grant expenditure is mainly due to funding for alterations to the Finance building by means of the FMG grant being held in suspense with expenditure early in 2006 / 2007.

1.2 TRADING SERVICES

	Actual 2005 R	Actual 2006 R	Variance 2005 / 2006 %	Budget 2006 R	Variance Actual / Budget %
Income	85,228,467	98,088,000	15.09%	95,996,440	2.18 %
Expenditure	71,446,166	76,220,173	6.68%	80,366,770	(5.16)%
Surplus	13,782,300	21,867,827	58.67%	15,629,670	39.91 %
Surplus as % of total income :	16.17	22.29		16.28	

Trading services realised an operating surplus of R 21,9 m for the year which was applied to reduce the deficit of R 9,8 m made on Rate and General Services. The results of each trading account are as follows :-

Electricity Service

	Actual 2005 R	Actual 2006 R	Variance 2005 / 2006 %	Budget 2006 R	Variance Actual / Budget %
Income	59,155,036	67,281,922	13.74%	64,799,870	3.83 %
Expenditure	52,200,969	53,891,904	3.24%	55,878,380	(3.55)%
Surplus	6,954,067	13,390,018	92.55 %	8,921,490	50.09 %
Surplus of total income :	11.76	19.90		13.77	

The Council's bulk electricity purchases were contained within the estimate with a saving of R 0,7 m. The Council makes use of a management system to assist in the control of KVA peak demand. A surplus of R 13 m was posted for the year. See appendix H for statistical details.

Water Service

	Actual 2005 R	Actual 2006 R	Variance 2005 / 2006 %	Budget 2006 R	Variance Actual / Budget %
Income	26,073,431	30,806,078	18.15 %	31,196,570	(1.25)%
Expenditure	19,245,197	22,328,269	16.02%	24,488,390	(8.82)%
Surplus	6,828,234	8,477,809	24.16 %	6,708,180	26.38 %
Surplus as % of total income :	26.19	27.52		21.50	

Council reticulates water from its own sources. Income was up 18 % over the previous year. However, the actual yield against budget was down R 0,4 m (1%), There was an saving of R 2,1 m (8%). A surplus of R 8,5 m was posted for the year.

Director: Financial Services Report (Continued)

2. CAPITAL EXPENDITURE AND FINANCING

The expenditure on fixed assets during the year amounted to R 65,5 m. This is 45 % more than the previous year. The actual expenditure is however, 17 % less than that budgeted and consists of the following :

CAPITAL EXPENDITURE	Actual 2006 R	Budget 2006 R	Actual 2005 R	Variance Actual / Budget %
Buildings	1,654,826	1,470,000	126,829	(13)%
Public works, Roads and Stormwater drains	6,868,704	11,741,150	3,216,581	41 %
Housing	25,128,821	24,620,090	19,795,084	(2)%
Other infrastructure	6,456,770	6,706,350	7,839,163	4 %
Sewerage	6,396,306	8,304,880	1,819,837	23 %
Electricity	7,336,855	7,425,240	5,842,433	1 %
Water	11,686,287	18,383,530	6,433,950	36 %
	65,528,569	78,651,240	45,073,877	17%

After the non operational services capital budget is deducted then the capital spend for operational services only equates to 65%. Whilst it is noted that the approval regarding Water only happened in the first half of the financial year it is also noted that this approval was only given because it was expressly stated that the budget would be spent in the 2005 / 2006 financial year.

One of the reasons behind the introduction of the MFMA was to enhance the financial planning of capital projects. Councillors are ultimately judged and measured on the capital budget spent and is suggested that a 65% spend on the critical infrastructure assets is at this point not good enough

A complete analysis of capital expenditure (budget and actual) per department, classification or service is included in appendix C. More details regarding external loans and internal advances used to finance fixed assets are shown in appendix B.

Resources used to finance the fixed assets were as follows :

CAPITAL FINANCING	2006 Actual R	2006 Budget R	2005 Actual R
External loans	23,832,719	20,961,640	1,540,583
Revolving Fund	19,922,559	21,577,000	8,938,225
Contributions from operating income	1,096,631	1,191,690	1,754,622
Grants and subsidies - conditional	33,565,788	34,920,910	18,542,358
Public Donations	-	-	2,000
Temporary advances (to) / from Cash	(12,889,128)	-	14,296,089
	65,528,569	78,651,240	45,073,877

The development of housing and related infrastructure projects accounted for R 25,1 m (R 19,8 m in 2005). There has been a marked increase in expenditure on trading services infrastructure (Sewerage, Water and Electricity) of R 25,4 m (R 14,1

Figures for roads, walkways and stormwater drainage show an expenditure of R 6,9 m, nearly double that of 2005 (R 3,2 m).

The remaining expenditure of R 8,1 m covered the procurement of operational assets such as vehicles, equipment and alterations to the finance building and communal facilities such as sports fields and halls.

Director: Financial Services Report (Continued)

3. EXTERNAL LOANS, INVESTMENTS AND CASH

External loans outstanding on 30 June 2006 amounted to R 113,6 m (R 99,6 m in 2005) as set out in appendix B. During the year loans amounting to R 23,8 m were drawn down for the current and previous year whilst loans repaid amounted to R 9,8 m. External loans are drawn down during the financial year as dictated by cash flow.

Investments and Cash on 30 June 2006 amounted to R 59,5 m (R 45,1 m).

Whilst Council holds R 59,5 m in cash and investments, R 8,5 m will be required to repay long term liabilities that fall due within the early part of the new financial year. In addition the R 13 m held in long term investments serves as guarantee on long term liabilities.

More information regarding loans, long term liabilities and investments are disclosed in notes 3 and 6 and appendices A and B.

4 FUNDS AND RESERVES

More information regarding funds and reserves are disclosed in the notes 1 and 2 and appendix A to the financial statements.

5 OUTSTANDING DEBTORS

Outstanding debts are collected in terms of Council's credit control policy. The year on year increase in billing debtors amounts to R 3,5 m. However when measured against the growth in billing debtors for the 2005 / 2006 financial year of 10% or Rr8.7m, it is clearly apparent that effective credit control is exercised.

More information regarding debtors is disclosed in note 9.

6 GENERAL

Inter Governmental Transfers and Social Rebates in aid of Indigent Residents

An amount of R 8,7 m was received from the State for 2005 / 2006 in respect of the Division of Revenue Act to off-set the cost to Council of making services available to the indigent sections of our community. For those earning below R 2,000 per month, services were made available free.

Council granted social rebates to owners of property in respect of annual service charges on refuse, sewerage and water amounting to R 7,7 m during 2005 / 2006.

All improved domestic properties received a R 30,000 reduction in valuation equating to R 3,9 m in rates. In addition R 6,4 m in alleviation on rates was granted to agricultural properties, exempted (municipal) properties, government properties, the transfer of the phasing in of Karatara debtors and to pensioners.

6 Kl of free water was allowed for all domestic consumers, whilst previously disadvantaged areas receiving 8 Kl. 50 kwh free electricity was made available to consumers with 20 amp prepaid electricity meters in state housing schemes.

7 POST BALANCE SHEET EVENTS

Although in terms of IMFO reporting it is not necessary to mention post balance sheet events, nevertheless I believe it would be remiss of me not to mention two events that have occurred since 30 June.

The first was the heavy downpours that caused severe flooding throughout the municipality. It should be noted that the Executive Mayor has declared this an emergency in terms of Section 29 of the Municipal Finance Management Act. This allows Council to incur expenditure immediately to alleviate the effects of the emergency. The current estimated cost is R27 million but this is provisional in terms of reporting to Province.

Director: Financial Services Report (Continued)

The second event is the closure of the N2 at Kaaimans. From an immediate financial perspective this will cause increased costs in respect of our waste by rail refuse service, which can no longer operate via George and will now have to be freighted + 170km daily to Humansdorp. This is a temporary solution.

Of far higher import is the effect of the N2 closure on the economy and inhabitants of Knysna Municipality.

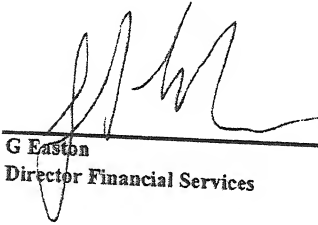
In the first instance this municipality is dependant upon tourism as its main economic driver. The closure of the N2 for even a short period will cause havoc, not to say severe economic deprivation to this area. There will almost certainly be a loss in overseas tourists, but the loss in domestic tourism will be crippling.

In the second instance the closure will have the effect of increased transport costs with the attendant "trickle - down" repercussions to the economy. Knysna is already an "expensive" area to live in and its economy is very fragile and very polarised. National and Provincial Government must be petitioned at every turn to ensure the most rapid return to normality to prevent or at least mitigate the potential economic disaster that lies ahead.

EXPRESSION OF APPRECIATION

I am grateful to the Executive Mayor, members of the Executive Mayoral Committee, Councillors, the Municipal Manager and the various Directors as well as the Internal Audit staff and the Audit Committee for the support they have given to me and my staff during the year under review.

I would also like to express my appreciation to the Auditor-General's staff for their co-operation and assistance during the audit of the Council's financial statements.



G Easton
Director Financial Services

29/8/06

Date

ACCOUNTING POLICIES

1. Basis Of Presentation

- 1.1 These financial statements have been prepared to conform to the standards laid down by the Institute of Municipal Finance Officers in its Code of Accounting Practice (1997) and the Report on Published Annual Financial Statements of Local Authorities (Second Edition - January 1996).
- 1.2 The Financial Statements are prepared on the historical cost basis, adjusted for fixed assets as more fully detailed in Accounting Policy note three. The accounting policies are consistent with those applied in the previous year, except where otherwise indicated.
- 1.3 The Financial Statements are mainly prepared on the accrual basis :
 - Income is accrued when collectable and measurable. Certain direct income is accrued when received, such as prepaid meters certain licenses and traffic fines.
 - Expenditure is accrued in the year it is incurred.

2. Consolidation

The Financial Statements include the Rate And General Services, Housing Service, Trading Services and the different funds, reserves and provisions. All interdepartmental charges are set off against each other, with the exception of assessment rates, refuse removal, sewerage, electricity and water, which are treated as income and expenditure in the respective departments.

3. Fixed Assets

3.1 Fixed assets are stated :

- at historical cost, or
- at valuation (based on the market price at date of acquisition), where assets have been acquired by grant or donation.

while they are in existence and fit for use, except in the case of bulk assets which are written off at the end of their estimated life as determined by the Director Finance.

3.2 Depreciation

The balance shown against the heading "Loans Redeemed and Other Capital Receipts" in the notes to the balance sheet is tantamount to a provision for depreciation, however, certain structural differences do exist. By way of this "Provision", assets are written down over their estimated useful life. Apart from advances from the various council funds, assets may also be acquired through :

- Appropriations from income, where the full cost of the asset forms an immediate and direct charge against the operating account, and therefore it is unnecessary to make any further provision for depreciation.
- Grant or donation, where the amount representing the value of such grant or donation is immediately credited to the "Loans Redeemed and Other Capital Receipts" account.

3.3 All net proceeds from the sale of fixed property are credited to the Revolving Fund. The net proceeds of the sale of all other assets is also paid into this fund.

3.4 Fixed assets are financed from different sources, including external loans, operating income, grants, subsidies, public contributions and internal advances. In the case of loans and advances these are repaid within the estimated lives of the assets acquired from such loans and advances. Interest arising on loans and advances is charged to the service concerned at the ruling interest rate applicable at the time to external loans, while internal advances are made at a more beneficial rate.

4. Inventory

Inventory is valued at the lower of cost, determined on the weighted average basis, and net realisable value.

ACCOUNTING POLICIES (continued)

5. Funds and Reserves

5.1 Revolving Fund

- Electricity/Water/Sewerage Augmentation Fund

The purpose of the fund is to provide for capital expenditure which must be incurred on extensions to electricity, water and sewerage services as a result of township developments and land subdivisions. Augmentation levies are payable by developers as a contribution to the cost of any extensions. The fund was approved under cover AA. 56/7 of 30 May, 1986.

5.2 Loan Redemption Fund

The redemption of loans raised by means of Knysna Municipality stock issues requires that annual contributions, together with interest, be made to the Loan Redemption fund to provide for the future repayment of such stock issues. Loans funded in this way are subject to a limitation of being repaid within the estimated life of the asset to a maximum of 30 years.

The monies held by this fund are also invested internally in advances to borrowing services but are mostly short term advances to coincide with the funds commitments to repay stock issue loans.

5.3 Reserves

- Working Capital Reserve

This Fund was established to provide for contingent operating expenses and to provide for the write off of bad debts in terms of Council Minute 8.7.22 of 28/5/98.

Arrear debtors consist of amounts owed to Council by ratepayers and consumers for period's greater than 30 days. Council has established a provision for bad debts based on past experiences in the collection of arrear debt. Council approved that 75% of debt older than a year be provided in addition that 50% of debt 90 days to a year be provided for in terms of minute 8.111.7 of 6/4/04.

5.4 Provisions

- Leave Provision

The Council has established a Leave Reserve. Contributions are made to maintain the fund at its current level, as and when required from the Operating account. This is the value of outstanding leave due to council employees at year end.

- Salary TASK Provision

The Council had established a Salary TASK provision. A once off contribution was made to create the fund, from the Operating account to mitigate the impact of the new TASK salary system. (This fund was disbanded and the provision reversed in 2005 / 2006)

6. Retirement Benefits

- Monthly Employees

The Councils employees who are remunerated on a monthly basis are members of the Cape Joint Pension Fund or the Cape Joint Retirement Fund established in terms of the Local Authorities Pension Fund Ordinance No 23 of 1969, and the provisions of the Pension Funds Act No 24 of 1956. Current contributions by Council are charged against the respective departments in the Operating Account on the basis as determined by the C.J.P.F. and the C.J.R.F.

7. Surpluses and Deficits

Any surpluses or deficits arising from the operation of the electricity and water trading services are transferred to Rate and General Services as their operating accounts are part of the same Income Statement.

ACCOUNTING POLICIES (continued)

8. Treatment of Administration and other Overhead Expenses

The cost of internal support services are charged to the various services and departments to whom resources are made available.

9 Investments

Investments are shown at market value, and are invested as per Councils approved Investment policy

10 Income Recognition

10.1 Electricity and Water Billing

Meters are generally read every month and where an account is estimated, provisional accounts are rendered. Adjustments for provisional readings are made when readings are processed. Prepaid meters are recognised on payment.

10.2 Assessment Rates

Knysna applies a differential rating system whereby different rates are levied on land and on buildings. A further rebate is granted to ratepayers according to age and income to afford relief to needy owners. The first R 30,000 of domestic properties valuation is exempted from rates.

10.3 Social Rebates For Service Charges

Knysna grants a social rebate, according to income, to any resident who qualifies. The cost of these rebates are born by other rate and tax payers and is recovered in the tariffs and by means of a state grant (equitable share).

BALANCE SHEET AT 30 JUNE 2006

CAPITAL EMPLOYED	Note	2006 R	2005 R
FUNDS AND RESERVES			
Statutory Funds	1	65 047 867	73 031 359
Reserves	2	63 062 263	71 045 756
		1 985 604	1 985 604
RETAINED INCOME	19	11 798 614	4 985 415
		76 846 481	78 016 774
LONG TERM LIABILITIES			
CONSUMER DEPOSITS : SERVICES	3	104 152 558	94 014 900
	4	6 776 166	5 961 854
		<u>187 775 205</u>	<u>177 993 528</u>

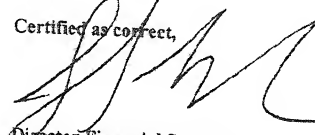
EMPLOYMENT OF CAPITAL

FIXED ASSETS	5	129 015 645	130 223 796
LONG TERM INVESTMENTS	6	13 013 646	7 312 638
LONG TERM DEBTORS	7	2 635 328	3 145 849
DEFERRED CHARGES	10	131 148	510 176
		144 795 767	141 192 459

NET CURRENT ASSETS / (LIABILITIES)

CURRENT ASSETS		42 979 438	36 801 070
Inventory	8	80 426 998	71 984 528
Debtors	9	1 492 179	1 118 344
Cash	24	32 100 607	32 605 843
Short-term Investments	6	1 896 852	10 025 732
Short-term portion of long term Debtors	7	44 572 945	27 776 311
		364 415	458 297
CURRENT LIABILITIES		(37 447 560)	(35 183 459)
Provisions	11	(3 038 824)	(3 907 185)
Creditors	12	(24 988 964)	(25 701 594)
Short-term portion of long-term liabilities	3	(9 419 772)	(5 574 679)
		<u>187 775 205</u>	<u>177 993 528</u>

Certified as correct,


Director Financial Services

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

2005	2005	2005		2006	2006	2006	2006
Actual Income	Actual Expenditure	Surplus / (Deficit)		Actual Income	Actual Expenditure	Surplus / (Deficit)	Budget Surplus / (Deficit)
R	R	R		R	R	R	R
89 231 920	103 637 579	(14 405 659)	RATE AND GENERAL SERVICES	103 266 530	113 394 105	(10 127 575)	(15 862 720)
61 598 411	63 738 550	(2 140 138)	Community Services	71 879 548	68 022 849	3 856 699	546 080
713 077	14 982 925	(14 269 848)	Subsidised Services	1 338 551	22 517 161	(21 178 610)	(23 224 440)
26 920 432	24 916 104	2 004 328	Economic Services	30 048 432	22 854 096	7 194 336	6 815 640
154 312	31 266	123 045	HOUSING SERVICES	327 754	7 787	319 967	237 270
85 228 467	71 446 166	13 782 300	TRADING SERVICES	98 088 000	76 220 173	21 867 827	15 629 670
<u>174 614 698</u>	<u>175 115 011</u>	<u>(500 314)</u>	TOTAL	<u>201 682 284</u>	<u>189 622 065</u>	<u>12 060 219</u>	<u>4 220</u>
		(8 356 225)	Appropriations for the year (Refer to note 19)				
		(8 856 539)	Net (deficit) / surplus for the year			(5 247 020)	
			Accumulated surplus: beginning of the year			6 813 199	
		13 841 954	ACCUMULATED SURPLUS: END OF THE YEAR			4 985 415	
		<u>4 985 415</u>				<u>11 798 614</u>	

(Refer to Appendices D and E for more detail)

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 R	2005 R
CASH RETAINED FROM OPERATING ACTIVITIES		65 914 581	38 985 233
Cash Generated By Operations	20	56 287 228	26 494 295
Investment Income	18	4 063 857	4 486 466
(Increase)/Decrease In Working Capital	21	(1 494 014)	13 373 120
		58 857 072	44 353 881
Less : Interest Paid On External Loans	18	(13 776 116)	(13 570 846)
Cash Available From Operations		45 080 955	30 783 035
Cash Contribution From The Public And State	28	20 033 636	8 202 198
Net Proceeds On Disposal Of Fixed Assets	App A	799 989	-
Cash Utilised In Investing Activities			
Investment In Fixed Assets	5	(65 528 569)	(45 060 231)
NET CASH FLOW		<u>386 012</u>	<u>(6 074 998)</u>
CASH EFFECTS OF FINANCING ACTIVITIES			
Increase / (Decrease) In Long-Term Loans	22	13 982 751	(3 818 780)
Increase / (Decrease) In Short-Term Loans		-	-
(Increase) / Decrease In Cash Investments	23	(22 497 642)	9 019 761
Decrease In Cash	24	8 128 880	874 017
NET CASH (GENERATED) / APPLIED		<u>(386 012)</u>	<u>6 074 998</u>

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2006

	2006 R	2005 R
1 STATUTORY FUNDS		
Revolving Fund	47 183 046	52 619 679
Loan Redemption Fund	11 156 432	13 871 975
Housing Development Fund Realised	2 068 624	2 504 703
Housing Development Fund Unrealised	2 654 161	2 049 398
(Refer to appendix A for more detail)	<u>63 062 263</u>	<u>71 045 756</u>
2 RESERVES		
Valuation Reserve	1 985 604	1 985 604
	<u>1 985 604</u>	<u>1 985 604</u>
The Valuation Reserve will be utilised in the 2006 /2007 financial year with the implementation of the Rates Act number 6 of 2004. (Refer to appendix A for more detail)		
3 LONG TERM LIABILITIES		
Government Loans	2 168 306	2 294 561
Local Registered Stock	19 201 096	23 673 397
Annuity Loans	92 202 928	73 621 621
	<u>113 572 330</u>	<u>99 589 579</u>
Less: Current portion transferred to Current Liabilities		
Government Loans	9 419 772	5 574 679
Local Registered Stock	127 269	126 256
Annuity Loans	1 505 548	1 468 726
	<u>7 786 955</u>	<u>3 979 698</u>
(Refer to appendix B for more detail on long term liabilities)	<u>104 152 558</u>	<u>94 014 900</u>
GOVERNMENT LOANS		
Bear interest at rates between 0% and 1% per annum and are repayable over twenty years.		
LOCAL REGISTERED STOCK		
Bear interest at rates between 16,25% and 19% per annum and are repayable over periods of between one and twelve years.		
ANNUITY LOANS		
Bear interest at rates between 5% and 18% per annum.		
The long term investments serve as guarantee on loans taken up on loans amounting to R 25 651 890 from the Development Bank of South Africa see note 6		
4 CONSUMER DEPOSITS: SERVICES		
Deposits	6,776,166	5 961 854
Electricity	4,358,305	3 784 255
Water	2,417,861	2 177 599
Interest is not paid on these amounts.		

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2006 (Continued)

	2006 R	2005 R
5 FIXED ASSETS		
Fixed assets at the beginning of the year		
Capital expenditure during the year	376 976 959	331 916 728
Less: Assets written off, transferred or disposed of during the year	65 528 569	45 073 877
Total Fixed Assets	<u>(1 323 144)</u>	<u>(13 646)</u>
	441 182 384	376 976 959
Less: Loans redeemed and other capital receipts		
Net Fixed Assets	312 166 739	246 753 163
<i>(Refer to appendix C and section 2 of the Director Finance's report for more details on fixed assets)</i>	<u>129 015 645</u>	<u>130 223 796</u>
6 INVESTMENTS [MFMA 125 (2)(a)]		
<i>Unlisted</i>		
Long term Deposits	57 586 591	35 088 949
Short term deposits	13 013 646	7 312 638
	44 572 945	27 776 311
Total Investments	<u>57 586 591</u>	<u>35 088 949</u>
<i>Market value of listed investments, and managements' valuation of unlisted investments:-</i>		
Unlisted investments		
Average rate of return on investments	57 586 591 7.37%	35 088 949 7.13%
Circular no C/7/1996 (AAO/26) of 10-5-1996 issued by Provincial Administration of the Western Cape requires local authorities to invest funds, which are not immediately required, with prescribed institutions and the period should be such that it will not be necessary to borrow funds against the investment at a penalty rate to meet commitments.		
The long term investments have been pledged to DBSA as guarantees on external loans taken up.	13 013 646	7 312 638
No investments have been written off during the year.		
7 LONG TERM DEBTORS		
Housing loans		
Vehicle loans	178 673	79 930
Loans to organisations (Diminishing Assets)	739 440	1 287 023
Equipment Loans	-	25 415
Staff housing loans	-	3 847
Old age homes	114 924	140 171
	1 966 706	2 067 761
Short-term portion of long-term debtors	<u>2 999 743</u>	<u>3 604 147</u>
	(364 415)	(458 297)
<i>(See Appendix F for more details)</i>	<u>2 635 328</u>	<u>3 145 849</u>

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2006 (Continued)

	2006	2005
	R	R
8 INVENTORY		
Inventory represents consumable stores, raw materials and finished goods. No provision is made for obsolete stock.		
	<u>1 492 179</u>	<u>1 118 344</u>
9 DEBTORS		
Current Debtors (Consumer, Rates and Sundry)	41 730 306	38 275 224
Amounts paid in advance	1 935 307	1 626 554
Government Subsidies and Grants	3 378 848	2 817 373
Other Debtors	<u>4 287 583</u>	<u>6 786 629</u>
	51 332 044	49 505 780
Less: Working Capital Reserve	<u>(19 231 437)</u>	<u>(16 899 936)</u>
	<u>32 100 607</u>	<u>32 605 843</u>
Amounts totalling R 3 621 613 were written off as irrecoverable bad debts during the year, (2005 : R 2 251 263) this represents 1.8% (2005: 1.3%) of the total operating income for the year.		
Days outstanding in debtors amount to 76 days (2005: 83 days).		
Government debtors due as at 30 June	2006	2005
	2 386 371	3 082 312
181 days plus	1 921 609	2 492 345
151 to 180 days	94 350	72 690
121 to 150 days	24 492	28 324
91 to 120 days	94 577	29 993
61 to 90 days	50 048	33 837
31 to 91 days	52 428	63 668
0 to 30 days (Current)	148 867	361 455
Submitted monthly as required by National Treasury [MFMA 64 (3)].		
10 DEFERRED CHARGES		
Insurance claims	<u>131 148</u>	<u>510 176</u>
	<u>131 148</u>	<u>510 176</u>
11 PROVISIONS		
Leave Gratuity	3 038 824	916 960
Salary Restructuring	-	2 990 225
<i>Refer to appendix A for more detail</i>	<u>3 038 824</u>	<u>3 907 185</u>
12 CREDITORS		
<i>Sundry creditors</i>		
Trade Creditors and accruals	8 791 898	7 063 024
Sundry Creditors	1 310 445	8 908 731
Unspent Conditional Grants and Receipts	9 924 906	5 220 581
V.A.T. Receiver of Revenue	<u>2 888 039</u>	<u>2 753 046</u>
<i>See Appendix G for more detail</i>	22 915 288	23 945 382
Deposits Other	138 369	129 658
Amounts received in advance	1 935 307	1 626 554
	<u>24 988 964</u>	<u>25 701 594</u>

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2006 (Continued)

13 ASSESSMENT RATES

	Building Conditions Valuation as at 1 July 2005 R '000	Site Valuation as at 1 July 2005 R '000	Building Valuation as at 1 July 2005 R '000	Actual Income 2006	Actual Income 2005
Domestic	817	2 012 065	2 082 639	(44 639 689)	(40 276 190)
Accommodation	-	47 067	125 120	(1 632 971)	(1 558 430)
Commercial	208	117 845	307 270	(5 481 600)	(5 196 542)
Church	7	8 831	17 917	(221 818)	(220 585)
Light Industrial	103	7 089	24 785	(364 270)	(352 449)
Agricultural / Rural	-	264 656	120 683	(4 948 961)	(4 661 461)
State	-	48 952	60 244	(1 064 575)	(1 022 891)
Other - Pensioners etc	-	9 162	22 625	(247 139)	(313 485)
Sporting Bodies	-	4 181	4 879	(89 817)	(86 360)
Value Limited	44	17 100	37 565	(446 142)	(351 468)
	<u>1 179</u>	<u>2 536 948</u>	<u>2 803 727</u>	<u>(59 136 982)</u>	<u>(54 039 861)</u>
Penalty on Rates				(780 610)	(583 659)
Rebates and Exceptions				10 277 433	9 560 777
Total Rates Income				<u>(49 640 159)</u>	<u>(45 062 744)</u>

Current valuations are based on the 2001 / 2002 valuation. An interim valuation took place during 2005 / 2006 to accommodate growth in the rate base due mostly to private development. A rate in the rand for domestic properties of R 0.016630 was charged on site values and a rate in the rand of R 0.004158 for improvements. Businesses were charged a rate in the rand of R 0.029299 on site values and a rate in the rand of R 0.006382 for improvements.

Properties used for domestic purposes and consisting of both land and improvements are subject to a R 30,000 valuation reduction. There are also different rebates and phased in tariffs for different sectors of the community. Interest on arrear accounts is charged at bank rate plus one.

14 GOVERNMENT GRANTS AND SUBSIDIES [MFMA 123 (1)]

Equitable share	8 740 290	4 371 792
Provincial health subsidies	2 982 625	2 282 021
FMG Grant	1 709 780	1 480 132
MIG Grant	5 112 731	928 000
Disaster Management	6 900 080	-
Other	5 341 973	6 972 226
Total Government Grant and Subsidies	<u>30 787 479</u>	<u>16 034 172</u>

14.1 Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. All registered indigents receive a monthly subsidy, which is funded from this grant.

14.2 Provincial Health Subsidies

Balance due at beginning of year	(457 752)	-
Current year receipts - included in public health vote	2 745 521	1 824 269
Conditions met - transferred to revenue	(2 982 625)	(2 282 021)
Funds transferred to Appropriation Account	457 752	-
Conditions met - balance due by government transferred to current assets (see note 9)	<u>(237 104)</u>	<u>(457 752)</u>

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2006 (Continued)

The Municipality renders health services on behalf of the Provincial Government and is refunded 100% of total expenditure incurred. This grant has been used exclusively to fund clinic and prime care services (included in the public health votes 43 and 46 in Appendix E). The conditions of the grant have been met.

14.3 MIG (Municipal Infrastructure Grant)

	2006 R	2005 R
Balance unspent at beginning of year	2 653 580	-
Current year receipts	3 630 245	3 581 580
Conditions met - transferred to revenue	(5 112 731)	(928 000)
Conditions still to be met - transferred to liabilities (see note 12)	<u>1 171 094</u>	<u>2 653 580</u>

This grant was used to construct roads and sewerage infrastructure as part of the upgrading of informal settlement areas (included in the roads and sewerage votes in Appendix C). No funds have been withheld.

14.4 FMG (Financial Management Grant)

Balance unspent at beginning of year	1 580 892	2 061 024
Current year receipts - included in Finance Budget Office vote	1 000 000	1 000 000
Conditions met - transferred to revenue	(1 709 780)	(1 480 132)
Conditions still to be met - transferred to liabilities (see note 12)	<u>871 112</u>	<u>1 580 892</u>

The FMG grant is utilised to promote and support reforms to municipal financial management and the implementation of the Municipal Finance Management Act. (included in Finance vote 70 in Appendix E). No funds have been withheld.

14.5 Disaster Management Grant

Balance due at beginning of year	-	-
Current year receipts - included in votes 60,87,88, 92 and 93	5 278 872	-
Conditions met - transferred to revenue	(6 900 080)	-
Conditions met - balance due by government transferred to current assets (see note 9)	<u>(1 621 208)</u>	<u>-</u>

The Disaster Management Grant was used in mitigation of the flood damage experienced on the 22 December 2004 (included in Public Works votes 87 & 88, Water votes 92 & 93 as well as the Sports Fields vote 60 in Appendix E). The conditions of the grant have been met.

14.6 Other Grants

Balance unspent at beginning of year	950 991	3 952 849
Balance due at beginning of year	(2 359 621)	(1 728 769)
Current year receipts	7 842 372	3 339 516
Conditions met - transferred to revenue	(5 341 973)	(6 972 226)
Conditions still to be met - transferred to liabilities (see note 12)	2 612 306	950 991
Conditions met - balance due by government transferred to current assets (see note 9)	(1 520 536)	(2 359 621)
Net Other Grants unspent / (due)	<u>1 091 769</u>	<u>(1 408 630)</u>

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2006 (Continued)

2006
R

2005
R

Various grants and subsidies from National, Provincial and District used for housing, water, sanitation, electrification, libraries, etc.

14.7 Changes in levels of government grants

Based on the allocations set out in the Division of Revenue Act, (Act 2 of 2006), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

15 EMPLOYEE RELATED COSTS [MFMA 124 (1)(c)]

Employee related costs - Salaries and Wages	43 009 734	40 475 599
Employee related costs - Contributions for UIF, pensions and medical	12 200 753	11 342 654
Travel, motor car, accommodation, subsistence and other allowances	3 948 287	3 682 336
Housing benefits and allowances	846 512	746 620
Overtime payments	2 661 452	2 910 230
Performance bonus	226 800	130 800
	<u>62 893 538</u>	<u>59 288 239</u>

Remuneration of the Municipal Manager

Annual Remuneration	426 240	403 200
Performance Bonus	94 500	30 000
Car Allowance	112 896	112 896
Contributions to U.I.F, Medical and Pension Funds, etc	126 643	113 933
	<u>760 279</u>	<u>660 029</u>

Remuneration of the Director Finance

Annual Remuneration	410 460	378 000
Performance Bonus	66 150	33 600
Car Allowance	60 000	60 000
Contributions to U.I.F, Medical and Pension Funds, etc	125 821	109 181
	<u>662 431</u>	<u>580 781</u>

**Remuneration of Individual Executive Directors
30 June 2006**

	Corporate	Community *	Operations **
Annual Remuneration	372,464	86 763	34 147
Performance Bonus	66,150	-	-
Car Allowance	99,996	17 708	1 927
Contributions to U.I.F, Medical and Pension Funds, etc	124,343	24 237	10 098
* For 1st quarter only - post vacant for 9 months	<u>662,954</u>	<u>128 708</u>	<u>46 172</u>
** For 1 month only - post only filled from 1 June 2006			

30 June 2005

	Corporate	Community	Operations *
Annual Remuneration	336,000	351 744	220 500
Performance Bonus	21,000	21 000	25 200
Car Allowance	100,000	85 000	35 000
Contributions to U.I.F, Medical and Pension Funds, etc	113,927	100 783	65 717
* For seven months post currently vacant	<u>570,927</u>	<u>558 527</u>	<u>346 417</u>

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2006 (Continued)

	2006 R	2005 R
16 COUNCILLORS' REMUNERATION [MFMA 124 (1)(a)]		
Mayor's allowance	275 547	255 459
Deputy Mayor's allowance	241 113	210 979
Speaker	242 988	
Councillors allowances	849 783	672 183
Mayoral Committee allowances	307 997	565 708
	<u>1 917 427</u>	<u>1 704 329</u>
17 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT		
17.1 Contributions to organized local government (SALGA) [MFMA 125 (1)(b)]		
Opening balance	-	-
Council subscriptions	263 441	214 218
Amount paid – current year	(263 441)	(214 218)
Amount paid – previous years	-	-
Closing Balance	<u>-</u>	<u>-</u>
17.2 Auditors' Remuneration [MFMA 125 (1)(b)]		
Opening balance	-	-
Current year Audit Fees : External Audit (Auditor General)	749 591	634 928
Internal Audit	949 641	536 954
Audit Committee	114 000	22 250
Amount paid – current year	(1 813 232)	(1 194 132)
Amount paid – previous years	-	-
Closing Balance	<u>-</u>	<u>-</u>
17.3 VAT [MFMA 125 (1)(b)]		
Opening balance	(163 910)	105 003
Amount received – current year	(16 008 874)	(15 543 010)
Amount claimed – current year	14 681 854	12 287 214
Amount paid – current year	1 768 791	3 091 886
Amount paid – previous years	163 910	(105 003)
Closing Balance	<u>441 771</u>	<u>(163 910)</u>
VAT is payable on the receipts basis. Only once payment is received from debtors is VAT paid over to SARS.		
17.4 PAYE and UIF [MFMA 125 (1)(b)]		
Opening balance	(248 380)	243 566
Current year payroll deductions	(7 465 343)	(6 759 919)
Amount paid – current year	7 205 563	6 511 539
Amount paid – previous years	248 380	(243 566)
Balance unpaid (included in creditors)	<u>(259 780)</u>	<u>(248 380)</u>
The balance represents PAYE and UIF deducted from the June 2006 payroll. These amounts were paid during July		
17.5 Pension and Medical Aid Deductions [MFMA 125 (1)(b)]		
Opening balance	-	-
Current year payroll deductions	(16 882 833)	(15 310 730)
Amount paid – current year	16 882 833	15 310 730
Amount paid – previous years	-	-
Balance unpaid (included in creditors)	<u>-</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2006 (Continued)

	2006 R	2005 R
17.6 Councillor's arrear consumer accounts [MFMA 124 (1)(b)]		
No Councillors had arrear accounts outstanding for more than 90 days as at: -	June 2006	June 2005
No Councillors had arrear accounts outstanding for more than 90 days during the year.		
17.7 Supply Chain Management		
The Municipality has developed and implemented a supply chain management policy.		
18 FINANCE TRANSACTIONS		
<i>Total external interest earned or paid:</i>		
Interest earned (Operating)	(4 063 857)	(4,486,466)
Interest earned (Funds)	(1 386 278)	(1 843 139)
Interest paid (All Services & Funds)	13,776,116	13,570,846
	<u>8,325,981</u>	<u>7,241,241</u>
<i>Capital charges debited to operating account:</i>		
Interest		
External	15 058 414	15 033 984
Internal	13 776 116	13 570 846
Redemption	1 282 298	1 463 137
External	8 398 357	8 529 533
Internal	6 350 768	5 742 787
	2 047 589	2 786 746
	<u>23 456 771</u>	<u>23 563 516</u>
19 APPROPRIATIONS		
<i>Appropriation Account:</i>		
Accumulated surplus at the beginning of the year	4 985 415	13 841 954
Operating surplus / (deficit) for the year	12 060 219	(500 314)
Appropriations for the year	(5 247 020)	(8 356 225)
(Refer to appendix E for more detail)	<u>11 798 614</u>	<u>4 985 415</u>
<i>Operating Account:</i>		
Capital expenditure (Refer to appendix D for more detail)	<u>1 096 631</u>	<u>1 754 622</u>
Contributions to:		
Provisions		
Reserves	3 940 755	(888 235)
Revolving Fund	5 953 114	(2 912 705)
Grants And Donations	11 748 338	5 908 229
Loan Redemption Fund	-	1 428 781
(Refer to appendix A for more detail)	<u>1 756 757</u>	<u>5 162 654</u>
	<u>23 398 964</u>	<u>8 698 725</u>

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2006 (Continued)

	2006 R	2005 R
20 CASH GENERATED BY OPERATIONS		
Surplus / (deficit) for the year	1 12 060 219	(500 314)
Adjustments in respect of previous years' operating transactions	1 (5 247 020)	(8 356 225)
Appropriations charged against income:	1 (9 893 869)	(3 508 281)
- Working Capital Reserve	(5 953 114)	(1 500 020)
- Reserves	-	(1 000 000)
- Provisions	1 (3 940 755)	(1 008 261)
Capital charges		
* Interest paid		
- On internal loans	2 1 282 298	1 463 137
- On external loans	3 13 776 116	13 570 846
* Redemption	2 047 589	2 786 746
- On internal loans	9 802 040	849 330
- On external loans	7 379 028	2 865 692
* Deferred charges written off	4 (4 063 857)	(4 486 466)
Investment income (operating account)	5 (20 033 636)	(8 202 198)
Donations and Subsidies		
Non-operating income:		
Provisions and reserves (other income)	1 21 019 190	15 154 582
Non-operating expenditure:		
Reserves		
Funds	5 953 114	338 558
Provisions	2 (10 065 780)	2 744 875
Grant Funds	5 5 403 894	(631 216)
	4 33 867 900	12 405 230
	<u>56 287 228</u>	<u>26 494 295</u>
21 (INCREASE) / DECREASE IN WORKING CAPITAL		
(Increase) / Decrease in Inventory	(373 835)	20 990
(Increase) / Decrease in debtors and Long term Debtors	(1 221 861)	8 239 044
Increase in creditors, consumer deposits	101 682	5 113 086
	<u>(1 494 014)</u>	<u>13 373 119</u>
22 (INCREASE) / DECREASE IN LONG-TERM LOANS (EXTERNAL)		
Loans raised	23 832 719	1 540 583
Loans repaid	(9 849 968)	(5 359 363)
	<u>13 982 751</u>	<u>(3 818 780)</u>
23 (INCREASE) / DECREASE IN EXTERNAL CASH INVESTMENT		
Investment realised	134 002 358	54 019 761
Investment made	(156 500 000)	(45 000 000)
	<u>(22 497 642)</u>	<u>9 019 761</u>

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2006 (Continued)

	2006 R	2005 R
24 CASH		
24.1 DECREASE IN CASH ON HAND		
Cash balance at the beginning of the year	10 025 732	10 899 749
Less: Cash balance at the end of the year	1 896 852	10 025 732
Petty Cash	17 520	13 070
Bank Cash Account	(85 224)	(222 343)
Bank	1 964 556	10 235 005
	<u>8 128 880</u>	<u>874 017</u>

24.2 BANK, CASH AND OVERDRAFT BALANCES [MFMA 125 (2)(a)]

The Municipality has the following bank accounts: -

Current Account (Primary Bank Account)

ABSA Bank Limited - Knysna Branch: Account Number 1000014938

Cash book balance at beginning of year	10 235 005	11 000 093
Cash book balance at end of year	1 964 556	10 235 005
Bank statement balance at beginning of year	18 922 436	16 609 590
Bank statement balance at end of year	21 855 377	18 922 436

Current Account (Cash Account)

ABSA Bank Limited - Knysna Branch: Account Number 4053683889

Cash book balance at beginning of year - overdrawn	(222 343)	(111 414)
Cash book balance at end of year - overdrawn	(85 224)	(222 343)
Bank statement balance at beginning of year	216 941	74 701
Bank statement balance at end of year	452 850	216 941

25 RETIREMENT BENEFITS

Employees remunerated monthly are members of either the Cape Joint Retirement Fund or the Cape Joint Pension Fund.

Employees contribute 9% and the employer 18% of pensionable emoluments to these Funds.

26 CONTINGENT LIABILITIES AND CONTRACTUAL OBLIGATIONS

Guarantees issued by the Knysna Municipality in respect of building society and commercial bank housing loans to Council officials amounted to :

	<u>204 845</u>	<u>231 345</u>
Due to the change in the conditions of service in regard to leave the current policy for the provision of funds to the leave reserve fund is under review. 2005 / 2006 no longer a contingent liabilities as the leave reserve fund is fully funded.	<u>-</u>	<u>916 960</u>

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2006 (Continued)

	2006 R	2005 R
The Municipality is in the process of litigation with regards to the Sparrebosch water pipeline. However if the ruling goes against Council it could cost upwards of R 2 million.		
27 CAPITAL COMMITMENTS		
<i>Commitments in respect of capital expenditure:</i>		
- Approved and contracted for	38 294 862	9 498 640
- Approved but not yet contracted for	-	10 663 500
	<u>38 294 862</u>	<u>20 162 140</u>
<i>This expenditure will be funded from :-</i>		
- Internal sources	10 453 965	-
- External sources	27 840 897	9 498 640
Other Sources	14 925 904	3 230 140
Grant Funds	12 914 993	6 268 500
	<u>38 294 862</u>	<u>9 498 640</u>
28 CAPITAL INVESTING ACTIVITIES		
<i>Investments in fixed assets</i>		
- Capital expenditure	(64 205 424)	(45 060 231)
<i>Cash contributions to infrastructure</i>		
- Public and State contributions	(20 033 636)	(8 202 198)
29 CAPITAL DEVELOPMENT FUND		
<i>Outstanding advances to borrowing services :</i>		
Accumulated fund	47 183 046	52 619 679
(Refer to appendix A for more detail)	<u>47 183 046</u>	<u>52 619 679</u>

APPENDIX A

STATUTORY FUNDS, RESERVES AND PROVISIONS

	Balance at 2004 / 2005 R	Contributions during the year R	Interest on investments R	Other income R	Operating expenditure during the year R	Capital expenditure during the year R	Balance at 2005 / 2006 R
STATUTORY FUNDS							
Revolving Fund	52 619 679	11 748 338	1 386 278	799 989	-	19 371 239	47 183 046
Loan Redemption Fund	13 871 975	1 756 757	-	-	4 472 300	-	11 156 432
Housing Development Fund Realised	2 504 703	-	-	115 240	-	551 319	2 068 624
Housing Development Fund Unrealised	2 049 398	-	-	604 763	-	-	2 654 161
	71 045 755	13 505 095	1 386 278	1 519 993	4 472 300	19 922 559	63 062 263
RESERVES							
Working Capital Reserve	16 899 936	5 953 114	-	-	3 621 613	-	19 231 437
Valuation Reserve	1 985 604	-	-	-	-	-	1 985 604
	18 885 540	5 953 114	-	-	3 621 613	-	21 217 041
PROVISIONS							
Leave Gratuity	916 960	3 940 755	-	-	1 818 891	-	3 038 824
Salary Restructuring	2 990 225	-	-	-	2 990 225	-	-
	3 907 185	3 940 755	-	-	4 809 116	-	3 038 824
	93 838 480	23 398 964	1 386 278	1 519 993	12 903 029	19 922 559	87 318 128

APPENDIX B

EXTERNAL LOANS AND INTERNAL ADVANCES

EXTERNAL LOANS					Balance at 30/06/2005	Received During the Year	Redeemed or Written off During the Year	Balance at 30/06/2006
					R	R	R	R
Local Registered Stock								
	Issued	Cert No	Loan No	Redeemable				
10	01-03-1997 @ 19.00%	97,98	231	28-02-2007	429 553	-	-	429 553
10	21-08-1996 @ 18.00%		207-235	31-07-2006	8 514 584	-	-	8 514 584
20	30-08-1985 @ 16.50%	96	51-71	31-12-2005	4 472 300	-	(4 472 300)	-
15	20-02-1992 @ 16.40%	78	73;76;78;79	31-12-2006	4 000 000	-	-	4 000 000
15	01-09-1993 @ 16.25%	92	80-91;103-105;200	31-12-2008	3 023 957	-	-	3 023 957
20	01-09-1993 @ 16.35%	93	201-205;106;86	31-12-2013	2 322 482	-	-	2 322 482
25	01-09-1993 @ 16.45%	94	90+206	31-12-2018	710 520	-	-	710 520
	@ 18.75% Brenton		9	31-12-2006	200 000	-	-	200 000
					23 673 397	-	(4 472 300)	19 201 096
Annuity Loans								
Institution								
<i>Eden</i>					227 784	-	(70 056)	157 728
<i>IDC</i>					99 473	-	(29 377)	70 096
<i>INCA</i>					1 199 007	2 561 506	(337 128)	3 423 385
<i>DBSA</i>					67 481 530	21 271 213	(3 969 789)	84 782 954
<i>ABSA</i>					4 613 828	-	(845 063)	3 768 765
					73 621 621	23 832 719	(5 251 412)	92 202 928
Government Loans (Housing etc)								
<i>Hornlee Selfhelp Scheme Services</i>					226 800	-	(25 200)	201 600
<i>Hornlee Creche</i>					682 224	-	(22 128)	660 096
<i>Hornlee Old Age Home</i>					805 348	-	(33 753)	771 595
<i>SANEL</i>					6 666	-	(3 189)	3 477
<i>Millwood Old Age Home</i>					55 094	-	(9 359)	45 735
<i>Leisure Isle Old Age Home</i>					518 430	-	(32 628)	485 803
					2 294 561	-	(126 256)	2 168 306
					99 589 579	23 832 719	(9 849 968)	113 572 330

INTERNAL ADVANCES					Balance at 30/06/2005	Received during the year	Redeemed or written off during the year	Balance at 30/06/2006
					R	R	R	R
Revolving Fund					12 087 101	-	(2 001 097)	10 086 004
					12 087 101	-	(2 001 097)	10 086 004

APPENDIX C

ANALYSIS OF FIXED ASSETS

Expenditure 2005	Service	Budget 2006	Balance at 30/06/2005	Expenditure 2006	Written off transferred redeemed or disposed of during the year	Balance at 30/06/2006
R		R	R	R	R	R
11 182 573	RATE AND GENERAL SERVICE	19 427 990	129 983 805	14 980 300	1 121 022	143 843 082
6 566 485	Community Services	14 694 300	85 154 806	10 435 941	871 272	94 719 474
463 896	Councils' General Expenses	26 850	1 096 605	34 007	-	1 130 611
1 314 685	Beaches	-	2 952 546	-	-	2 952 546
252 102	Town Engineer	690 950	1 225 280	570 319	-	1 795 599
-	General	-	601 896	-	-	601 896
-	Land	-	5 489 413	-	-	5 489 413
174 090	Public Health	-	3 277 512	-	89 920	3 187 592
-	Public Health : Toilets	195 000	194 479	185 684	-	380 163
-	Public Works : Administration	-	45 025 796	-	-	45 025 796
1 079 764	Public Works : Stormwater	1 685 000	2 823 186	727 858	-	3 551 044
2 136 817	Public Works : Streets	10 056 150	16 086 203	6 140 846	708 824	21 518 225
142 970	Mechanical: Workshops	127 600	320 683	98 543	-	419 226
23 486	Stores	16 390	64 424	19 665	-	84 088
-	Municipal Manager	14 640	218 762	14 641	-	233 403
204 844	Director Corporate	108 300	667 599	104 031	19 834	751 796
-	Director Community	10 510	-	10 027	(19 834)	29 861
331 889	Director Finance	1 235 910	968 319	1 536 922	-	2 505 241
-	Director Operations	-	-	-	-	-
-	Director Strategy	10 510	-	10 027	-	10 027
317 314	Management Information Systems	468 760	1 451 200	462 710	29 017	1 884 893
41 661	Town Planning	47 730	281 808	45 687	-	327 495
82 968	Traffic	489 510	2 409 096	474 975	43 511	2 840 560
2 612 406	Subsidised Services	4 309 540	39 494 508	4 234 112	249 750	43 478 870
121 540	Cemetery	70 000	856 784	61 793	-	918 577
(73 278)	Civic Buildings	-	22 831 217	-	242 974	22 588 243
200 107	Halls and Facilities	1 470 000	288 685	1 654 826	-	1 943 511
196 963	Fire Brigade	177 540	2 911 561	168 944	125 995	2 954 509
211 670	Libraries	229 520	1 158 697	210 362	-	1 369 059
-	Museum	2 000	-	1 729	(188 931)	190 660
1 955 404	Parks	2 300 480	11 447 564	2 076 468	69 712	13 454 321
-	Swimming Pool	60 000	-	59 990	-	59 990
2 003 682	Economic Services	424 150	5 334 491	310 247	-	5 644 738
2 003 682	Cleansing	424 150	5 334 491	310 247	-	5 644 738
19 795 084	Housing Services	24 620 090	79 200 568	25 128 821	35 200	104 294 189
-	Hornlee	-	19 007 048	-	1 222 220	17 784 828
19 795 084	Housing Schemes	24 620 090	54 928 881	25 128 821	(1 187 020)	81 244 722
-	Khayaletu	-	5 264 638	-	-	5 264 638
14 096 220	Trading Services	34 113 650	167 792 586	25 419 448	166 922	193 045 112
1 819 837	Sewerage	8 304 880	35 128 985	6 396 306	19 821	41 505 470
5 842 433	Electricity	7 425 240	64 438 958	7 336 855	23 048	71 752 765
6 433 950	Water	18 383 530	68 224 643	11 686 287	124 053	79 786 877
45 073 877	Total	78 651 240	376 976 959	65 528 569	1 323 144	441 182 383
LESS: CAPITAL REDEEMED AND OTHER CAPITAL RECEIPTS			246 753 163	66 434 607	(1 021 032)	312 166 739
Loans Redeemed & Advances Paid			39 412 244	11 849 629	-	51 261 873
Contributions Ex Operating Income			64 566 089	21 019 190	(1 323 144)	84 262 135
Provisions And Reserves			9 819 996	-	-	9 819 996
Grants And Subsidies			132 954 835	33 565 788	302 112	166 822 735
NET FIXED ASSETS			130 223 796	(906 038)	302 112	129 015 644

APPENDIX D
ANALYSIS OF OPERATING INCOME AND EXPENDITURE
FOR THE YEAR ENDED 30 JUNE 2006

Actual 2005	INCOME	Actual 2006	Adjusted Budget 2006
R		R	R
(8 202 198)	Grants and Subsidies	(20 033 636)	(20 840 950)
(5 870 177)	-Central Government	(10 126 991)	(11 053 410)
(1 920 252)	-Provincial Government	(9 906 645)	(9 787 540)
(411 769)	-District Council	-	-
(183 068 506)	Operating Income	(199 595 738)	(195 928 020)
(54 045 301)	-Assessment Rates	(59 137 010)	(59 097 890)
(56 885 666)	-Electricity	(64 738 826)	(61 040 170)
(24 287 930)	-Water	(28 683 411)	(27 336 450)
(13 005 689)	-Sewerage	(12 968 418)	(13 383 040)
(11 473 785)	-Refuse	(12 585 454)	(12 204 270)
(23 370 136)	-Other Service Charges	(21 482 619)	(22 866 200)
(191 270 704)	Gross Income	(219 629 373)	(216 768 970)
16 656 006	Income Foregone	17 947 089	13 857 440
(174 614 698)	Nett Income	(201 682 284)	(202 911 530)
EXPENDITURE			
59 288 239	Salaries and Allowances	62 893 538	68 354 680
95 973 904	General expenses	99 449 705	102 065 320
27 819 937	-Purchase of Electricity	30 487 262	31 150 060
2 702 056	-Outsourced Functions	3 787 011	3 547 180
21 292 580	-Interdepartmental Charges	20 819 320	20 819 320
44 159 331	-Other General Expenses	44 356 113	46 548 760
14 230 613	Repairs and Maintenance	11 269 501	12 581 190
23 563 516	Capital Charges	23 456 771	27 350 060
1 346 325	Grant Expenditure	8 310 721	9 321 660
1 754 622	Contributions to Capital Outlay	1 096 631	1 208 860
4 592 130	Contributions	4 000 550	4 165 330
(4 341 758)	Contributions from Funds	(36 032)	(1 320 420)
196 407 591	Gross Expenditure	210 441 385	223 726 680
(21 292 580)	Less: Amounts charged out	(20 819 320)	(20 819 370)
175 115 011	Nett Expenditure	189 622 065	202 907 310
500 314	Nett Operating Result	(12 060 219)	(4 220)

APPENDIX E
DETAILED INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006

2005 Actual Income	2005 Actual Expenditure	2005 Surplus / (Deficit)		2006 Actual Income	2006 Actual Expenditure	2006 Surplus / (Deficit)	2006 Budget Surplus / (Deficit)
89 231 920	103 637 579	(14 405 659)	Rate and General Service	103 266 530	113 394 105	(10 127 575)	(15 862 720)
61 598 411	63 738 550	(2 140 138)	Community Services	71 879 548	68 022 849	3 856 699	546 080
45 062 744	150 050	44 912 694	Assessment Rates	49 640 159	150 050	49 490 109	49 746 130
-	549 107	(549 107)	Beaches	-	-	-	-
564 988	7 939 342	(7 374 354)	Council General Expenses	689 226	4 077 776	(3 388 550)	(4 058 790)
282 608	4 226 848	(3 944 240)	Housing Administration	309 148	6 049 205	(5 740 057)	(5 968 060)
466 769	1 918 467	(1 451 699)	Health : Environmental Health	-	71	(71)	-
7 434	122 591	(115 157)	Health : Licensing	-	-	-	-
845 552	2 416 064	(1 570 512)	Health : Clinics	1 857 815	1 857 815	-	217 080
969 700	1 460 432	(490 732)	Health : Prime Care	1 124 809	1 124 809	-	(826 620)
-	490 116	(490 116)	Health : Public Toilets	-	618 344	(618 344)	(674 700)
-	1 064 620	(1 064 620)	Health : Street Cleaning	-	1 243 769	(1 243 769)	(1 251 360)
13 250	1 604 274	(1 591 023)	Town Engineer	261 125	(359 570)	620 695	25 636
-	46 692	(46 692)	Public Works: Main Roads	-	7 220	(7 220)	(23 220)
-	1 850 390	(1 850 390)	Public Works: Stormwater	4 571 235	6 143 496	(1 572 261)	(1 588 210)
-	15 105 813	(15 105 813)	Public Works: Streets	137 459	16 385 703	(16 248 244)	(17 604 410)
160	(14 235)	14 395	Public Works: Workshop	-	(216 321)	216 321	(4 600)
-	503 864	(503 864)	Street Lights	-	354 099	(354 099)	(374 580)
-	1 474 144	(1 474 144)	Municipal Manager	196 270	(210 663)	406 933	306 630
-	1 193 225	(1 193 225)	Human Resources	-	(67 876)	67 876	81 290
-	3 290 049	(3 290 049)	Legal Services	-	3 177 452	(3 177 452)	(2 422 030)
-	-	-	Manager Corporate Services	-	2 397 243	(2 397 243)	(2 648 780)
-	-	-	Archives	-	449 865	(449 865)	(568 460)
-	-	-	Committee Services	-	624 664	(624 664)	(680 500)
21 000	595 916	(574 916)	Manager Community Services	-	(111 494)	111 494	(31 020)
-	-	-	Manager Finance	260 000	2 403 372	(2 143 372)	(2 378 745)
6 415 343	6 326 127	89 216	Finance : Income	5 315 401	5 677 369	(361 968)	(19 290)
-	593 493	(593 493)	Finance : Payroll	-	(47 387)	47 387	(5 600)
254 994	221 786	33 209	Finance : Stores	171 655	(60 762)	232 417	(8 890)
23 535	639 701	(616 166)	Finance : MIS	13 750	(918 493)	932 243	446 430
-	-	-	Finance : Expenditure	(7 406)	2 067 741	(2 075 147)	(1 870 680)
-	366 888	(366 888)	Finance : Budget Office	409 404	3 463 320	(3 053 916)	(3 379 710)
2 107 778	1 229 089	878 689	Manager Operations	1 791	458 542	(456 751)	(459 551)
360 344	2 510 433	(2 150 089)	Planning & Development : Building Control	2 321 499	1 520 612	800 887	402 520
-	-	-	Planning & Development : Town Planning	246 927	2 342 098	(2 095 171)	(2 598 950)
2 321 264	1 464 064	857 200	Public Safety : Law Enforcement	-	542	(542)	-
1 880 947	4 399 200	(2 518 253)	Public Safety : Vehicle Licensing & Testing	2 220 325	1 453 967	766 358	777 280
-	-	-	Public Safety : Traffic Department	2 138 955	5 966 267	(3 827 312)	(2 010 160)
713 077	14 982 925	(14 269 848)	Subsidised Services	1 338 551	22 517 161	(21 178 610)	(23 224 440)
118 922	855 826	(736 904)	Cemetery	140 939	921 140	(780 201)	(989 130)
-	(231 952)	231 952	Civic Buildings	290 893	4 156 533	(3 865 640)	(4 404 580)
71 956	457 395	(385 439)	Halls & Facilities	105 259	378 031	(272 772)	(575 270)
54 642	3 827 709	(3 773 067)	Fire Brigade	167 490	4 012 362	(3 844 872)	(3 972 630)
68 562	3 134 100	(3 065 538)	Libraries	72 943	4 192 166	(4 119 224)	(4 400 610)
2 199	396 399	(394 201)	Museum	20 564	455 202	(434 638)	(429 240)
396 796	4 413 621	(4 016 825)	Parks	453 252	7 277 874	(6 824 622)	(7 370 540)
-	382 331	(382 331)	Swimming Pool	-	258 982	(258 982)	(291 270)
-	1 747 496	(1 747 496)	Sports Fields	87 211	864 870	(777 660)	(791 170)
26 920 432	24 916 104	2 004 328	Economic Services	30 048 432	22 854 096	7 194 336	6 815 640
12 363 348	12 118 307	245 041	Cleansing: Refuse	14 419 410	12 766 326	1 653 084	1 672 940
-	488 562	(488 562)	Cleansing: Refuse Transfer Station	-	190 072	(190 072)	(160 390)
879 032	1 661 330	(782 298)	Estates	874 207	343 826	530 381	804 420
927 762	954 194	(26 432)	Cleansing: Sanitation	683 004	915 622	(232 618)	(31 320)
12 750 289	4 465 128	8 285 161	Sewerage: Plant	14 071 811	4 209 045	9 862 766	9 454 280
-	5 228 582	(5 228 582)	Sewerage: Reticulation	-	4 429 205	(4 429 205)	(4 924 290)
154 312	31 266	123 045	Housing Services	327 754	7 787	319 967	237 270
94 983	21 130	73 852	Letting Scheme	265 630	7 787	257 843	216 370
59 329	10 136	49 193	Letting / Selling Scheme	62 124	-	62 124	20 900
85 228 467	71 446 166	13 782 300	Trading Services	98 088 000	76 220 173	21 867 827	15 629 670
50 000	744 940	(694 940)	Electricity: Administration	35 088	1 119 418	(1 084 330)	(1 181 630)
59 105 036	50 262 463	8 842 573	Electricity: Distribution	67 246 834	51 530 044	15 716 791	11 477 960
-	1 193 566	(1 193 566)	Meter Reading	-	1 242 442	(1 242 442)	(1 374 840)
-	6 079 523	(6 079 523)	Water: Plant	897 826	6 736 604	(5 838 779)	(6 949 830)
26 073 431	13 165 674	12 907 756	Water: Reticulation	29 908 252	15 591 665	14 316 587	13 658 010
174 614 698	175 115 011	(500 314)	Total	201 682 284	189 622 065	12 060 219	4 220
		(8 356 225)	Appropriations for this year				
		(8 856 539)	(Refer to note 19)			(5 247 020)	
			Net (deficit) / surplus for the year			6 813 199	
		13 841 954	Accumulated surplus beginning of the year			4 985 415	
		4 985 415	Accumulated surplus end of the year			11 798 614	

APPENDIX F

ANALYSIS OF LONG TERM DEBTORS

	<u>2006</u>	<u>2005</u>
Housing Loans	178 673	79 930
474 Toilets	83 117	79 930
Capitalised Arrears: Rates	51 436	-
Capitalised Arrears: Housing Loans	31 432	-
Capitalised Arrears: Rental	12 688	-
Loans To Organisations [Diminishing Assets]	-	25 415
Derbyshire Quarries	-	7 923
Local Authority Loan	-	16 218
Diminishing Asset	-	1 274
Staff Loans Debtors	854 364	1 431 040
Vehicle Loans	739 440	1 287 023
Staff Housing Loans	114 924	140 171
Equipment Loans	-	3 847
Old Age Homes / Care Facilities	1 966 706	2 067 761
Hornlee Creche	660 096	682 224
Hornlee Old Age Home	771 595	805 348
SANEL	3 477	6 666
Millwood Old Age Home	45 735	55 094
Leisure Isle Old Age Home	485 803	518 430
Less Short-term portion transferred to current assets	364 415	458 297
Housing Loans	50 882	18 567
Loans To Organisations [Diminishing Assets]	-	20 022
Staff Loans Debtors	211 464	318 652
Old Age Homes / Care Facilities	102 069	101 056
TOTAL:	2 635 328	3 145 849

APPENDIX G
ANALYSIS OF "SUNDRY" CREDITORS

	<u>2006</u>	<u>2005</u>
VAT	2 888 039	2 753 046
VAT due by Debtors	2 888 039	2 753 046
SUNDRY (Short Term)	20 027 250	21 192 336
Short term - Accounts	11 235 351	14 129 312
Sundry Creditors	1 310 445	8 908 731
Unspent Conditional Grants and Receipts	9 924 906	5 220 581
Trade Creditors and accruals	8 791 899	7 063 024
Creditors Control [Trade Merchants]	3 925 336	3 795 999
Hoarding Fees	2 551 938	2 059 935
Retention Monies	2 314 624	1 207 090
TOTAL:	22 915 289	23 945 382

**REPORT OF THE KNYSNA AUDIT COMMITTEE ON THE FINANCIAL
STATEMENTS AND RESPONSE TO THE REPORTS OF THE AUDITOR-
GENERAL FOR THE 2005/2006 FINANCIAL YEAR**

INTRODUCTION

Apart from being required to assist Council in discharging Council's oversight responsibilities and to advise Council, its political office-bearers, Councillors, Management and staff on various matters, the Audit Committee is specifically mandated by the MFMA and the Audit Committee Charter to:

1. Review the Municipality's annual financial statements to provide Council with an authoritative and credible view of the financial position of the Municipality, its efficiency and effectiveness and its overall level of compliance with the MFMA and other applicable legislation.
2. Respond to Council on any issues raised by the Auditor-General in the audit reports.

In our report, we shall deal with these two items in reverse order and shall, in addition, make recommendations for Council's consideration.

**RESPONSES TO ISSUES RAISED IN THE AUDITOR-GENERAL'S REPORTS
FOR 2005/2006**

It is highly commendable that, for the first time since the formation of the new Greater Knysna Municipality in 2000, the Municipality has received an unqualified audit report from the Auditor-General. The Mayoral Committee, Management and staff are to be congratulated on this achievement.

The Auditor-General's Report did, however, raise four issues, under the heading of "Emphasis of Matter", which were not serious enough to require qualification of the audit report. We have discussed these with Management and our comments are as follows:

1. On the basis of information supplied by Management, we are satisfied that the leave provision of R3 038 824 is reasonably accurate.
2. The overprovision of contingent liabilities of R144 000 has been addressed by Management and will be adjusted in the accounts for the current financial year.
3. We agree that the adoption by Council of an appropriate fraud prevention policy would greatly assist the accounting officer to ensure that unauthorized, irregular or

fruitless and wasteful expenditure and other losses are prevented, as required by sec. 62(1)(d) of the MFMA. Management has undertaken to draft such a policy for consideration by Council. It is to be hoped that this will be done expeditiously.

As to the questions of taxation compliance, we believe that Management has taken reasonable follow-up steps to try to obtain confirmation by SARS that the municipality's regulation 2570 VAT formula has been approved by SARS; and, in our view, the latter's non-responsiveness cannot be laid at the door of the Municipality. The matter of the late submission to SARS of the IRP 501 reconciliation, involving an estimated amount of about R400 000 plus penalties, is being resolved.

In addition to the above matters, the Audit Committee also reviewed the various queries raised by the Auditor-General during the carrying out of the audit and the responses thereto of Management. However, no issues of significance arose out of this review which require to be reported to Council.

As of 16 January 2007 the Auditor-General's reports on information technology and on performance management had not yet been issued. The Audit Committee will issue a separate report or separate reports to Council as soon as possible after these reports from the Auditor-General are to hand.

REVIEW OF MUNICIPALITY'S FINANCIAL POSITION, EFFECTIVENESS AND COMPLIANCE

Once again, the picture presented by the financial statements is of a Municipality whose finances are currently sound and being competently, efficiently and effectively managed. In this regard, the Development Bank of South Africa, in its "Borrower Financial Appraisal" of Knysna Municipality issued on 28 November 2006, states that "the financial position of the Municipality is good and ... the cash flow, except as mentioned above, is managed well. The Municipality has a very good ability to repay its debt in the medium to long term". The DBSA rates the Municipality as low A+ "which implies a low expectation of investment risk".

It is noteworthy that capital expenditure, at over R65 million, again increased significantly (about 45%) over the previous year's figure. However, no picture of the Municipality's financial situation would be complete without mention of the serious challenges which the Municipality will face in meeting the capital expenditure needs of the town over the next five to ten years while at the same time ensuring satisfactory service delivery to all of its residents. Important policy decisions, involving tough choices, will have to be taken during the present Council's mandate in order to improve the town's infrastructure, provide adequate housing for the under-privileged and ensure that the competing demands of development and environmental integrity are properly

balanced so as to be sustainable. In the light of the political uncertainties which have bedevilled the Council's operations for some years, the political parties in Council would, in our view, be wise to reach a broad consensus on these matters as soon as possible so as to instil confidence in domestic and foreign investors, banks, the various levels of government and the residents of the town that, whichever parties are in power in the Council, the basic policies will be stable.

We also draw attention to the floods which took place after the end of the financial year. Even though Government has allocated an amount of R31million to repair the damage to infrastructure, this type of unforeseeable occurrence puts additional pressures on the Municipality's ability timeously to spend capital sums on infrastructure needs.

As far as compliance with the provisions of the MFMA and other legislation in relation to financial matters is concerned, the Municipality has done well. However, there is still room for improvement in the area of performance management and performance measurement. A compliance register has been drawn up identifying many of the legislative provisions which the Municipality has to comply with; this will be supplemented from time to time and a monitoring procedure will need to be drawn up.

We draw Council's attention to the fact that, as far as we are aware, the Executive Mayor has not yet, as mandated by Council at its meeting on 30 May 2006, reported on the matters arising out of the Oversight Report adopted by Council at that meeting.

RECOMMENDATIONS & CONCLUSION

We recommend that:

- NAED
- 1) Council adopt the audited financial statements for the year 2005-2006 and
 - 2) the Executive Mayor be requested to ensure that a report be presented to Council on the issues arising from the Oversight Report adopted by Council on 30 May 2006.

We express our thanks to the Municipality's Management and staff, Council's political office-bearers, Councillors, the Auditor-General's staff and contracted-out auditors, and the Internal Auditor's staff for their co-operation during the past year. This year the Auditor-General contracted-out the auditing of the Municipality's statements. This resulted in some delays initially which put pressure on all concerned in the light of the applicable deadlines which had to be met. The Municipality's staff rose well to the occasion by providing swift responses to audit queries so as to help ensure that deadlines would be met.

R BARRELL (Chairperson)
P BASTIAN
N METELERKAMP
D MULLER
B YOUNG

Knysna
16 January 2007

13. **REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS
OF KNYSNA MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2006.**
Director : Financial Services

PURPOSE OF REPORT

To inform Council and recommend Council's acceptance of the Auditor-General's Report.

REPORT

Attached as annexure is the abovementioned Auditor-General report on the 2005/06 Financials.

QUALIFICATIONS

There were no qualifications in the Audit Report.

This is the first occasion that the new Knysna Municipality has received no qualifications since "it was incorporated".

EMPHASIS OF MATTER

Four issues were raised in this regard

- 1) The issue of the leave provision. The Director: Finance begs to differ with the Auditor-General as the provision is calculated based on actual outstanding leave due but is not going to make an issue of it.
- 2) The overprovision of the contingent liability, which was for staff guarantees to assist them with the purchase of a house, but which is no longer permissible in terms of the MFMA will be adjusted in the 2006/07 accounts.
- 3) The need for a fraud prevention policy is agreed and this is being investigated.
- 4) The information on the VAT formula is out of our own hands despite frequent follow-up and the IRP 501 reconciliation has been completed and is now being reviewed. The reconciliation issue first surfaced in 2002 as a result of an internal finding.

I wish to acknowledge and thank the Auditor-General and his staff for their hard work and positive input in the audit process.

I would like to take this opportunity to thank Councillors, Council officials and the Audit Committee for their continued support of the Finance Department, but I would like to point out most specifically Councillor James Botha and Messrs N Metlerkamp and B Young of the Audit Committee for their very valued professional input and advice.

Ultimately the burden of producing, monitoring and compiling the Financial Statements falls on my own Finance Department. In my four years in Knysna my staff and I have collectively run, walked and crawled, but we have always moved forward and for that I am very fortunate and very grateful to have such willing and able staff and willing managers to lead them in the direction we have set.

In every local authority the burden of producing the financials ultimately falls on the Head of the Budget Office and I would like to publicly thank Mr Walter McCartney for his stoicism, support and strength as we move through the whole local government accounting morass of moving from IMFO to GRAP via GAMAP.

A final thanks to our soon to be departed National Treasury Advisor, Mr Mark Pearson. Although Mark is not involved in the Statements process directly he has been instrumental in assisting staff, Councillors and the Audit Committee through the intricacies and procedures of the Municipal Finance Management Act and in doing so has freed up the Director: Finance and the Municipal Manager from the minutiae that is the MFMA

We wish him well wherever and in whatever his future endeavours are.

RECOMMENDATION

That the Report of the Auditor-General to the Council on the Financial Statements of the Knysna Municipality be accepted.

CHAPTER 5 : FUNCTIONAL SERVICE DELIVERY

The Municipality's current systems do not lend itself to providing full statistics as laid down in the guidelines contained in MFMA Circular No. 11. Whilst the Municipality will strive to provide full details in future for this year the best available information is provided

FUNCTION : EXECUTIVE AND COUNCIL	
SUB FUNCTION : N/A	
Reporting Level	Detail
Overview :	Knysna Municipality, through this function, provides secretariat support to Council and Executive Mayor, Committees, Ward Committees and Audit Committee
Description of the Activity :	<p>The function of executive and council within the Municipality is administered as follows and includes :</p> <ul style="list-style-type: none"> o Facilitation of Council Meetings o Mayoral Committee Meetings o Section 80 Committees o Ward Committees o Co-ordinate and encourage public participation in Municipal meetings o Refining roles and responsibilities of the administrative arm and the political arm <p>List the mandate issues:</p> <ul style="list-style-type: none"> o Effective public participation in Municipal Council affairs <p>The Strategic Objectives of this are to :</p> <ul style="list-style-type: none"> o Ensure that the Council's public participation system is effectively co-ordinated and adequate capacity support is provided to relevant stakeholders in order to achieve meaningful participation <p>List the Strategic Objectives:</p> <ul style="list-style-type: none"> o Establishment of fully functional Ward Committees o Adequate capacity support to Ward Committees o Capacity building for Ward Councillors <p>The key issues for 2005/06 are:</p> <ul style="list-style-type: none"> o Meaningful participation of the Ward Committees in Ward Based Planning o Induction of Councillors and Ward Committees

COUNCILLOR PROFILE – 01 JULY 2005 to 28 FEBRUARY 2006

NAME OF COUNCILLOR	PARTY	CAPACITY	WARD	S 80 COMMITTEE	CONSTITUENCY
Dr. COLE, Joy	Independent	Executive Mayor	Ward 03	N/A	Brenton, Belvidere, Lower Old Place, Industrial Area, Hunters Home, Sparrebosch, Heads, Leisure Island
BOUW, Eleanor RJ	ANC	Deputy Executive Mayor	PR Councillor	Chairperson: Finance & Corporate Services Committee Youth & Gender Development	Not Applicable
DAVIS, Stanley	DA	Ordinary Councillor	Ward 05	Finance, Corporate and Trading Services	Brackenhill, Noetzie, Town (up to White Bridge)
FINN, Andrew NA	ANC	Mayoral Committee Member	PR Councillor	Chairperson: Public Amenities & Housing Committee	N/A
GUNGUBELE, Nofinish V	ANC	Mayoral Committee Member	PR Councillor	Chairperson: Social Services Committee	N/A
HENDRICKS, Rhoda	DA	Ordinary Councillor	Ward 02	Social Services Committee	Karata, Rheendental & Buffalo Bay
JOYI, Winile	INDP	Ordinary Councillor	Ward 06	Requested to be excused from Committees	Bongani, Concordia & Khayalethu
KOTI, Nompumelelo E	ANC	The Speaker	Ward 07	Social Services Committee	Dam-se-Bos & Oupad
LOUW, Neil Glen	ANC	Ordinary Councillor	Ward 08		Hornlee
PLAATJIE, Zola M	ANC	Ordinary Councillor	Ward 04	Finance, Corporate and Trading Services	White Location, Flenter Location & Rhobololo
RHODES, Annie E	DA	Ordinary Councillor	PR	Public Amenities	N/A
RITZENBERG, Lorinda D	ANC	Ordinary Councillor	PR	Public Amenities Committee	N/A
THOBI, Charles	ANC	Ordinary Councillor	PR	Public Amenities Committee	N/A
VAN ASWEGEN, Elrick O	Knysna Forum	Ordinary Councillor	PR	Requested to be excused from Committees	N/A
Dr. WAKEFORD-BROWN, Theodoris	DA	Ordinary Councillor	Ward 01	Finance, Corporate and Trading Services	Sedgefield, Smutsville & Sizamile
WILLIAM, Gerina	DA	Ordinary Councillor	PR	Public Amenities Committee	N/A

COUNCILLOR PROFILE – 01 MARCH 2006 to 30 JUNE 2006

NAME OF COUNCILLOR	PARTY	CAPACITY	WARD (IF APPLICABLE)	S 80 COMMITTEE (IF APPLICABLE)	CONSTITUENCY
Dr. COLE, Joy	ANC	Executive Mayor	PR	N/A	N/A
Dr. WAKEFORD-BROWN, Theodoris	DA	Executive Deputy Mayor	Ward 01	Finance and Corporate Services, Ad Hoc Committee: Wilderness Lake Catchment Forum	Sedgefield, Smutsville, Sizamile
BOUW, Eleanore RJ	ANC	Mayoral Committee	PR Councillor	Chairperson: Public Amenities Committee Knysna River Catchment Forum, Local Labour Forum	N/A
KOTI, Nompumelelo E	ANC	Mayoral Committee	Ward 07	Social Services Committee, Employment Equity Monitoring, Appeals Committee	Nekkies, Dam-se-Bos, Donkerhoek
BOTHA, James	DA	Ordinary Councillor	Ward 05	Finance and Corporate Services, Ad Hoc Committee: Knysna River Catchment Forum, Appeals Committee	Brenton, Belvidere, Knysna Heights, Salt River Valley, Town West of Long Street, Hunters Home, Rexford, Leisure Isle, Eastern Head, Pezula
McCOMBI, Henry	DA	Speaker	PR Councillor	Ad Hoc Committee: Wilderness Lake Catchment Forum	N/A
BOTHA, Charl	Knysna Forum	Ordinary Councillor	PR Councillor	Finance and Corporate Services, Public Amenities and Housing, Local Labour Forum, Training Committee	N/A
WOLMARANS, Georlene	Independent Democrats	Ordinary Councillor	PR Councillor	Finance and Corporate Services	N/A
LOLIWE, Sonwabo	ANC	Ordinary Councillor	Ward 04	Public Amenities and Housing, Local Labour Forum	White Location, Fienters
MOLOSI, Mzukisi	ANC	Ordinary Councillor	Ward 08	Public Amenities and Housing	Thesen Island, Concordia, Bongani, Thembalitshe, Fraaisig, Hornlee Heights, Industrial Area
DAWSON, Richard	DA	Ordinary Councillor	PR Councillor	Public Amenities and Housing, Ad Hoc Committee: Aesthetics, Local Labour Forum	N/A
MATUNGANA, Amy	ANC	Ordinary Councillor	Ward 03	Social Service Committee, Training Committee	Khayalethu, Old Place North of N2 to Long Street, Brackenhill
JULE, Lawrence	ANC	Ordinary Councillor	Ward 02	Social Services Committee	Rheenendal, Buffalo Bay, Karatara
JOYI, Winile	ICOSA	Ordinary Councillor	PR Councillor	No Committee	N/A
OKTOBER, Edna	DA	Ordinary Councillor	PR Councillor	Social Services Committee, Employment Equity Monitoring, Training	N/A
KEMOETIE, Donald	Knysna Forum	Ordinary Councillor	Ward 06	Social Services Committee, Employment Equity Monitoring, Appeals Committee	Hornlee

ATTENDANCE RECORDS - 01 JULY 2005 to 28 FEBRUARY 2006

NAME OF COUNCILLOR	ATTENDANCE OF COUNCIL MEETINGS TOTAL NO. OF COUNCIL MEETINGS	TOTAL NO. ATTENDED
Dr. COLE, Joy	09	08
BOUW, Eleanore RJ	09	06
DAVIS, Stanley	09	09
FINN, Andrew NA	09	07
GUNGUBELE, Nofinish V	09	07
HENDRICKS, Rhoda	09	09
JOYI, Winile	09	05
KOTI, Nompumelelo E	09	08
LOUW, Neil Glen	09	09
PLAATJIE, Zola M	09	07
RHODES, Annie E	09	09
RITZENBERG, Lorinda D	09	09
THOBI, Charles	09	07
VAN ASWEGEN, Elrick O	09	07
Dr. WAKEFORD-BROWN, Theodoris	09	07
WILLIAM, Gerina	09	02

ATTENDANCE RECORD : 01 MARCH 2006 – 30 JUNE 2006

NAME OF COUNCILLOR	ATTENDANCE OF COUNCIL MEETINGS	
	TOTAL NUMBER OF MEETINGS HELD	TOTAL NUMBER OF MEETINGS ATTENDED
Dr. COLE, Joy	04	04
Dr. WAKEFORD- BROWN, Theodoris	04	03
BOUW, Eleanoré RJ	04	03
KOTI, Nompumelelo E	04	04
BOTHA, James	04	04
McCOMBI, Henry	04	02
BOTHA, Charl	04	04
WOLMARANS, Georlene	04	02
LOLIWE, Sonwabo	04	04
MOLOSI, Mzukisi	04	04
DAWSON, Richard	04	04
MATUNGANA, Amy	04	04
JULE, Lawrence	04	02
JOYI, Winile	04	04
OKTOBER, Edna	04	04
KEMOETIE, Donald	04	03

FUNCTION SUB FUNCTION	CORPORATE SERVICES
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Reporting Level	Detail	Total
Overview :	Includes all activities relating to the human resources management function of the Municipality including recruitment, selection and induction – also performance management systems, code of conduct details and decision making systems, Property and Records Management, Legal Services, Halls etc Note : Read in conjunction with Chapter 3 on Human Resources Management	
Description of the Activity:	<p>The function of corporate services within the Municipality is administered as follows and includes :</p> <ul style="list-style-type: none"> o Property and Records Management o Human Resources o Legal Services o Committee Services o Civic Buildings o Property and Records Management - This division ensures that Municipal information is appropriately kept for immediate access when required by the communities. With the aid of Access to Information Act, the public may access what they may require. Regarding property, this division ensures that details regarding each and every property in town are kept up to date o Human Resources – Ensures that proper human capital is provided for the communities of Knysna o Legal Services – Provide legal services back to the Municipality o Committee Services – refer to Committee services above o Civic Buildings – Ensure that appropriate and adequate work environment is created by providing the necessary facilities 	<p>R 449,865.19 R 67,876.36 R 3,177,452.42 R 624,663.72 R 3,865,639</p>
Analysis of the Function:	<p>Number and cost to employer of all Municipal staff employed :</p> <ul style="list-style-type: none"> - Property and Records Management - Human Resources - Legal Service - Committee Services - Civic Buildings <p>Note : total number to be calculated on full- time equivalent (FTE) basis</p>	<p>R 449,865.19 R 915,068.43 R 496,756.42 R 452,089.03 R 1,658,322.62</p>

**FUNCTION
SUB FUNCTION**

**ELECTRICITY
ELECTRICITY DISTRIBUTION**

Reporting Level	Detail	Total	
		Qty	R
Overview :	Include the bulk purchase and distribution of electricity		
Description of the Activity :	The electricity purchase and distribution functions of the Municipality are administered as follows and include :		
	<ul style="list-style-type: none"> o Street Lighting o Electricity Distribution o Electricity Administration o Electrical Maintenance 		
	The Strategic Objective of this is to :		
	<ul style="list-style-type: none"> o Ensure that appropriate and reliable electrical infrastructure is provided to the communities of Knysna 		
	Number and cost to employer of all personnel associated with the electricity distribution function:	2 10 1 28 1	R 3 787 307.00
	<ul style="list-style-type: none"> - Professional (Engineers/Consultants) - Field (Supervisors/Foremen) - Office (Clerical/Administration) - Non-professional (blue collar, outside workforce) - Temporary - Contract 		
	Note : total number to be calculated on full-time equivalent (FTE) basis, total cost to include total salary package		
	Total quantity and cost of bulk electricity purchases in kilowatt hours and rand, by category of consumer:		
	<ul style="list-style-type: none"> - Residential - Commercial - Industrial - Mining - Agriculture - Other 	155 644 187 kWh	R 24 946 432.00
	Total quantity and receipts for bulk electricity sales in kilowatt hours and rand, by category of consumer:		
	<ul style="list-style-type: none"> - Household - Commercial - Industrial - Mining - Agriculture - Other 	148 399 574 kWh	
	Total year-to-date electricity losses in kilowatt hours and rand	4.65%	

Reporting Level	Detail	Total
Analysis of the Function:	Number of households with electricity access, and type and cost of service:	
	- Electrified area	
	o Municipal	16 189
	o Eskom	590
	- Alternate energy source	
	o Gas	-
	o Paraffin	-
	o Solar	-
	o Wood	-
	- Non electrified	
	Note : if other types of services are available, please provide details	
	Number of new connections:	1 306
	Number and total value of electrification projects planned and current:	
	- Current (financial year after year reported on)	
	- Planned (future years)	7 168 505
	Note : provide total project and project value as per initial or revised budget	
	Free Basic Service Provision:	
	- Quantity (number of households affected)	5675
	- Quantum (value to each household)	50
	Note : Provide details of how many households receive the FBS provision, and the average value it means per household	
	Describe in detail the level of Free Basic Services provided	
	Type and number of grants and subsidies received:	
	List each grant or subsidy separately:	R 200 000.00
	DME for Electrification	R 200 000.00

FUNCTION : ELECTRICITY
SUB FUNCTION : STREET LIGHTING

Reporting Level	Detail	Quantity	Total Rand Value
Overview :	Include all activities associated with the provision of street lighting to the community		
Description of the Activity:	Street lighting responsibilities of the Municipality are administered as follows and include:		
	o Maintenance of existing street lights		
	o Installation of new street lights		
Analysis of the Function:	Number and implementation of new street lighting technology		
	Number and total operating cost of streetlights servicing population:		
	Note : total streetlights are available from municipal inventory	3 647	R 354 098.93
	Total bulk kilowatt hours consumed from streetlighting	3 047 000 kWh	
	Note : total number of kilowatt hours consumed by all street lighting for year	3 047 000 kWh	

SUB FUNCTION : SEWERAGE ETC **FUNCTION : WASTE WATER MANAGEMENT**

Reporting Level	Detail	Total	
		Quantity	Rand Value
Overview :			
Description of the Activity:	Includes provision of sewerage services, not including infrastructure and water purification, also includes toilet facilities The sewerage functions of the Municipality are administered as follows and include:		
	<ul style="list-style-type: none"> o Sewerage Purification Services o Sewerage Reticulation Services o Sewerage Sanitation Services 		R 4 209 044 R 4 429 042 R 915 622
Analysis of the Function:	<p>Number and cost to employer of all personnel associated with sewerage functions:</p> <ul style="list-style-type: none"> - Professional (Engineers/Consultants) - Field (Supervisor/Foremen) - Office (Clerical/Administration) - Non-professional (blue collar, outside workforce) - Temporary - Contract <p>Note : total number to be calculated on full-time equivalent (FTE) basis, total cost to include total salary package</p>		R 1 696 459
	<p>Additional Capital Expenditure on Sewerage Systems :</p> <p>SEWERAGE PURIFICATION SERVICES</p> <ul style="list-style-type: none"> o Laboratory Equipment o Plant Augmentation : Sedg In o Rheentendal Works Phs 01 o Roof Over Inlet Works o Security Fence at Sewer Plant o Sewerage Works Ext Phase 01 o Tools & Equipment o Trimmer : Knysna (573) <p>SEWERAGE RETICULATION SERVICES</p> <ul style="list-style-type: none"> o Brenton on Sea Reticulation o Knysna 2002 : Sewer – EDEN o Knysna 2002 : Sewer (MIG) Ward 06&07 o Knysna 2002 : Sewer Ward 06&07 o Point Sewer Reticulation o Upgrade Sewer Mains : Knysna o Upgrade Main Sewer Pump Station <p>SEWERAGE SANITATION SERVICES</p> <ul style="list-style-type: none"> o Eradiccate Bucket Sanitation 		28 176.00 19 832.68 50 300.23 271 754.18 231 020.20 173 003.77 3 771.93 3 645.00 4 483.71 961 043.37 1 853 629.28 121 244.11 421 984.02 1 522 994.73 40 537.00 688 885.35

	<p>Free Basic Service Provision :</p> <ul style="list-style-type: none"> o Sewer Rebates (Phase in) o Sewer Rebates (R0 – R2000) o Sewer Rebates (R2001 – R2500) o Sewer Rebates (R2501 – R3500) <p>- Quantity (number) of houses and details of how many households receive the FBS provision, and the average value it means per household. Describe in detail the level of FBS provided</p>		<p>18 868</p> <p>1 192 404.02</p> <p>37 695.11</p> <p>20 075.94</p>
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FUNCTION : ROAD TRANSPORT
SUB FUNCTION : ROADS

Reporting Level	Detail	Quantity	Total Rand Value
Overview :	Construction and maintenance of roads within the Municipality's jurisdiction		
Description of the Activity:	<p>The roads maintenance and construction responsibilities of the Municipality are administered as follows and include:</p> <ul style="list-style-type: none"> o Main Roads o Stormwater o Streets 		<p>7 220.00</p> <p>1 572 260.92</p> <p>6 520 491</p>
Analysis of the Function:	<p>Number and cost to employer of all personnel associated with road maintenance and construction:</p> <ul style="list-style-type: none"> o Professional (Engineers/Consultants) o Field (Supervisors/Foremen) o Office (Clerical/Administration) o Non-professional (blue collar, outside workforce) o Temporary and Contract <p>Note : total number to be calculated on full-time (FTE) basis, total cost to include total salary package</p> <p>Total maintenance cost associated with existing roads provided:</p> <ul style="list-style-type: none"> o Re-Sealing o Gravel <p>Note : if other types of road provided, please provide details</p> <p>Type and number of grants and subsidies received :</p> <ul style="list-style-type: none"> o Municipal Infrastructure Grant <p>Capital Expenditure on Roads and Stormwater</p> <p>STORMWATER</p> <ul style="list-style-type: none"> o General Improvements o Stormwater CBD Sedgfield <p>STREETS</p> <ul style="list-style-type: none"> o General Improvements o Labour Intensive Pavements MIG o Pavements CBD Project CNL o Pedestrian and Cycle Paths o Program Computer Equipment o Public Transport Facility o Sidewalks 		<p>4 009 912.93</p> <p>857 648.75</p> <p>362 078.55</p> <p>574 429.13</p> <p>397 617.71</p> <p>330 240.19</p> <p>327 814.95</p> <p>574 429.13</p> <p>199 758.82</p> <p>466 842.60</p> <p>6 901.60</p> <p>2 417 180.23</p> <p>487 528.66</p>

	<ul style="list-style-type: none"> o Speed Control Measures o Stabilise Bank : Stroebeel Str o Taxi Shelter Program Ward (01 – 08) o Vehicle : Purchase Vacuum Truck o Vehicle : Replacement – CX 25863 LDV o Vehicle : Replacement – CX 29805 Truck o Vehicle : Replacement – CX 29987 Truck o Vigilance Drive SANRAL o Ward 02 : Paving Roads Rheenedal 	26 212.40 65 075.92 163 260.85 202 920.00 128 519.99 256 986.78 477 660.00 157 841.31 181 912.87
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FUNCTION : HEALTH SUB FUNCTION : CLINICS

Reporting Level	Detail	Total
Overview :	Includes all activities with the provision of health	
Description of the Activity:	The function for the provision of community health clinics within the Municipality is administered as follows and includes: <ul style="list-style-type: none"> o Clinics o Primary Care o Public Toilets 	1 857 815.20 1 124 809.40 618 344.34
Analysis of the Function:	Number and cost to employer of all health personnel: <ul style="list-style-type: none"> o Professional (Doctors/Specialists) o Professional (Nurses/Aides) o Para-professional (Clinic staff qualified) o Non-professional (Clinic staff unqualified) o Temporary o Contract Note : total number to be calculated on full-time equivalent (FTE) basis, total cost include total salary package.	2 817 304.00
	Type and number of grants and subsidies received: <ul style="list-style-type: none"> o Department of Health – Primary Health Care o Department of Health – Clinics - list each grant or subsidy separately -	1 124 809.47 1 857 815.40

FUNCTION : COMMUNITY AND SOCIAL SERVICES SUB FUNCTION : ALL INCLUSIVE
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Reporting Level	Detail	Total
Overview :	Includes all activities associated with the provision of community and social services	
Analysis of the Function:	Number and cost to employer of all personnel associated with each community services function: <ul style="list-style-type: none"> o Library 	2 606 516.22

	<ul style="list-style-type: none"> o Parks and Recreation o Safety Fire Brigade Services o Safety Law Enforcement o Safety Vehicle Licensing and Testing o Safety Traffic Department o Sport Fields o Swimming Pools <p>Note : total number to be calculated on full-time equivalent (FTE) basis, total cost to include total salary package</p>		3 876 241.30 2 442 154.02 - 715 302.42 3 482 560.24 129 486.15 150 783.53
FUNCTION	HOUSING	Total	
SUB FUNCTION	HOUSING		
Reporting Level	Detail	Quantity	Rand Value
Overview :	Includes all activities associated with provision of housing		
Description of the Activity:	The function for the provision of housing within the Municipality is administered as follows and includes: <ul style="list-style-type: none"> o Housing Administration and Provision o Housing Letting Schemes o Housing Selling Schemes 		
Analysis of the Function:	Number and cost of all personnel associated with provision of Municipal housing: <ul style="list-style-type: none"> o Professional (Architects/Consultants) o Field (Supervisors/Foremen) o Office (Clerical/Administration) o Non-professional (blue collar, outside workforce) o Temporary o Contract <p>Note : total number to be calculated on full time equivalent (FTE) basis, total cost to include total salary package. Professional includes project design, Field includes all tradespersons</p>		
	Number and total value of housing inputs current: <ul style="list-style-type: none"> o Electrification : Infill Erven o Electrification : Infill Erven o Hornlee 404 : Transfer Erven o Hornlee : Fix Toilets o Housing Transfers – Hornlee o Knysna 2002 (200 erven) o Knysna 2002 (200 erven) o Middle Income Project : Erven o Phase 01 : Ext Fienter/Robololo o Prepaid Meter : Housing 350 o Program Computer Equipment o Program Office Equipment o Smutsville/Sizamele : Fix Toilets o Vehicle : Replace CX8541 LDV o Witlokasie : Transfer Ervens 		
			312 567.97 465 000.00 - 449 064.27 - 1 584 157.85 16 780 779.80 267 492.36 1 412 505.20 3 076 079.89 438 537.48 14 116.54 - 199 999.96 128 519.99 -

FUNCTION : WASTE MANAGEMENT
SUB FUNCTION : SOLID WASTE

Reporting Level	Detail	Total
Overview :	Includes refuse removal, solid waste disposal and landfill, street cleaning and recycling	
Description of the Activity:	The refuse collection functions of the municipality are administered as follows and include:	
	<ul style="list-style-type: none"> o Cleansing and Refuse Removal o Transfer Station 	<ul style="list-style-type: none"> 12 766 323 190 071.86
Analysis of the Function:	<ul style="list-style-type: none"> - Provide statistical information on (as a minimum) - Number and cost to employer of all personnel associated with refuse removal: - Professional (Engineers/Consultants) - Field (Supervisors/Foremen) - Office (Clerical/Administration) - Non-professional (blue collar, outside workforce) - Temporary - Contract 	
	<p>Note : total number to be calculated on full time (FTE) basis, total cost to include total salary package.</p> <p>Number of households receiving regular refuse removal services, and frequency and cost of service:</p> <ul style="list-style-type: none"> - Removed by Municipality at least once a week - Removed by Municipality less often - Communal refuse dump used - Own refuse dump - No rubbish disposal <p>Note : if other intervals of services are available, please provide details</p> <p>Total and projected tonnage of all refuse disposed:</p> <ul style="list-style-type: none"> - Domestic/Commercial - Garden <p>Note : provide total tonnage for current and future years activity</p> <p>Total number, capacity and life expectancy of refuse disposal sites :</p> <ul style="list-style-type: none"> - Garden Sites (Please note that there are no refuse disposal sites in Knysna as that is done through rail) - Knysna Area - Sedgfield Area 	<ul style="list-style-type: none"> 5 045 664.03 11 912 040 0 0 0 0 0 17 941 13 884 23 680
	<p>Anticipated expansion of refuse removal service:</p> <ul style="list-style-type: none"> - Domestic / Commercial - Garden <p>Note : provide total number of households anticipated to benefit and total additional operating cost per year to the municipality</p>	<ul style="list-style-type: none"> 230 000 200 000

Reporting Level	Detail	Total
Analysis of the Function:	Free Basic Service Provision: - Quantity (number of households affected) - Quantum (value to each household) The values differ as they are determined by the household's total income Income : 0 – 2000 : 1523 households @ 100% reduction Income : 2001 – 2500 : 105 households @ 50% reduction Income : 2501 – 3500 : 148 households @ 25% reduction Total operating cost of solid waste management function	1776 1 272 586.05 15 073 280.00

FUNCTION : WATER
SUB FUNCTION : WATER DISTRIBUTION

Reporting Level	Detail	Total
Overview :	Include the bulk purchase and distribution of water	
Description of the Activity:	The water purchase and distribution functions of the Municipality are administered as follows and include: o Water Purification o Water Reticulation	Quantity 5 838 778.69 15 591 663.00
Analysis of the Function:	Number and cost to employer of all personnel associated with the water distribution function: - Professional (Engineers/Consultant) - Field (Supervisors/Foremen) - Office (Clerical/Administration) - Non-Professional (blue collar, outside workforce) - Temporary and Contract Note : total number to be calculated on full-time (FTE) basis, total cost to include total salary package % of total water usage per month Total year-to-date water losses in kilolitres and rand Detail the total	7 2 5 65 2 4 521 848.90 93%
	Number of households with service, and type and cost of service : - Piped water inside dwelling - Piped water inside yard - Piped water on community stand : distance less than 200m from dwelling - Piped water on community stand : distance greater than 200m from dwelling - Borehole and Spring - Rain-water tank Note : It other types of services are available, please provide details	0 15 610 531 0 0 0

FUNCTION : WATER
SUB FUNCTION : WATER DISTRIBUTION

Reporting Level	Detail	Total	
		Quantity	Rand Value
Analysis of the Function:	Number and cost of new connections : Provide a detailed cost	85	220 000
	75 x 20mm connections : 75x 1755,60 131 670,00		
	10 x bulk connection : 10 x 8 833,00 88 330,00		
	Number and cost of disconnections and reconnections:	0	0
	Detail total	85	220 000
	Number and total value of water projects planned and current:		
	- Current (financial year after year reported on)	4	13 783 000
	- Planned (future years)	44	0
	Note : provide total project and project value as per initial or revised budget		
	Anticipated expansion of water service:		
	- Piped water inside dwelling	-	-
	- Piped water inside yard	-	-
	- Piped water on community stand : distance less than 200m from dwelling	-	-
	- Piped water on community stand : distance greater than 200m from dwelling	-	-
	- Borehole	-	-
	- Spring	-	-
	- Rain water tank	-	-
	Estimated backlog in number (and cost to provide) water connection:		
	- Piped water inside dwelling	-	-
	- Piped water inside yard	-	-
	- Piped water on community stand : distance less than 200m from dwelling	-	-
	- Piped water on community stand : distance greater than 200m from dwelling	-	-
	- Borehole	-	-
	- Spring	-	-
	- Rain water tank	-	-
	Note : total number should appear in IDP, and cost in future budgeted capital housing programmes		
	Free Basic Service Provision	16 141	
	- Quantity (number of households affected)	06 KI free	
	- Quantum (value to each household) – Normal Domestic	08 KI free	
	- Quantum (value to each household) Previously Disadvantage Areas		
	Type and number of grants and subsidies received:		
	o Eden District Municipality	01 Grant	941 838
	o Municipal Infrastructure Grant	03 Grants	3 683 446
	o Department of Provincial and Local Government	01 Grant	55 000
	Total operating cost of water distribution function		22 500 000

CHAPTER 6 : PERFORMANCE MANAGEMENT

Individual performance management is currently implemented only with Section 57 employees. It is, however, the intention of the Municipality to have all its employees' performance managed. This started towards the end of 2006 when individual performance management was cascaded to the second reporting line of managers.

Scorecards were drafted and discussed with Directors. Directors need to meet with their managers and finalise scorecards and set dates for performance review meetings. This process will be finished by the end of February 2007, after which individual performance management will be implemented to the second reporting line of managers. The first performance reviews should be in July 2007 for the quarters April, May and June.

**REPORT OF THE AUDITOR-GENERAL TO THE COUNCIL ON PERFORMANCE
MEASUREMENT AT KNYSNA MUNICIPALITY FOR THE YEAR ENDED
30 JUNE 2006**

1. ASSIGNMENT

The compilation, presentation and publishing of performance measurements and the implementation, management and internal control of supporting systems, are the responsibility of the accounting officer.

As required by section 45(b) of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) my responsibility is to provide an assessment of the controls implemented by the accounting officer to develop and manage the municipality's performance management system, my role is not to assess or comment on the municipality's actual performance.

2. NATURE AND SCOPE

I have performed the procedures agreed upon and described below regarding the performance measurement system of Knysna Municipality. The assignment was undertaken in accordance with the International Standard on Related Services (ISRS 4400) applicable to agreed upon procedures engagements.

The procedures were performed solely to evaluate the controls implemented and managed by the accounting officer regarding the municipality's performance measurement system against the criteria set out in:

- chapter 6 of the Municipal Systems Act, 2000;
- the Local Government: Municipal Planning and Performance Management Regulations, 2001 (No. R. 796)

The procedures performed during our assignment were based on the high-level overview checklist completed by the accounting officer and included a review of the following aspects:

1. Development of an integrated development plan
2. Development of a performance management system
3. Development and implementation of key performance indicators
4. Setting of targets for key performance indicators
5. Actual service delivery process
6. Internal monitoring of performance measurements
7. Internal control of the performance management system
8. Performance measurement and reporting
9. Revision of strategies and objectives

3. FACTUAL FINDINGS

I report my findings below:

3.1 PHASE 1

The following shortcomings were identified during the inspection of the development of the Integrated Development Plan (IDP):

Adoption of a process for drafting the IDP

- No proof could be obtained that a process (in writing) was adopted by the Municipal Council to guide the planning, drafting, adoption and review of its IDP. [Section 37(1)(d)]
- No proof could be obtained that the Municipality has a wide structure for community participation. [Section 28]
- No proof could be obtained that the Municipality has established a forum to enhance community participation in the drafting and implementation of the IDP. [Regulation 15]
- No proof could be obtained that the community's inputs were considered in adopting the documented process for drafting the IDP. [Section 28(2)]
- No proof could be obtained that the Municipality had given the local community notice of the process that it intended to follow in drafting the IDP. [Section 28(3)]

Adoption of the developed IDP

- No proof could be obtained that the local community was given 21 days to comment on the draft IDP prior to the plan being submitted to the council for adoption. [Regulation 15(3)]

Implementation of the developed IDP

- Due to the fact that a community forum has not been established, regular meetings with the community forum to monitor the implementation of the IDP were not conducted. [Regulations 15(2)]

Disclosure requirements of the IDP

- No proof could be obtained that the copy of the IDP, submitted to the MEC, contained a summary of the process adopted to develop the IDP, a statement that the IDP development process has been complied with, together with any explanations that may be necessary. [Section 32(1)]
- No proof could be obtained that the Municipality publicised, within 14 days of the adoption of the IDP, a summary of the plan. [Section 25(4)(b)]

Evaluating the documented IDP drafting process description

- No proof could be obtained that the IDP was drafted in accordance with a predetermined program specifying timeframes for the different steps as required in Section 29(1).
- No proof could be obtained that the developed IDP did contain a spatial development framework as required in Section 26(e) and Regulation 2(4).

Essential characteristics of the newly drafted or revised IDP

- No proof could be obtained that the IDP identified any investment initiatives in the Municipality or all known projects, plans and programs to be implemented within the municipality by any organ of state. [Regulations 2(1)]

3.2 PHASE 2

Input evaluation

- It could not be ascertained if the Municipality reviewed its framework for the PMS together with the PMS for the year under review. [Section 40]

Development of a framework for the PMS

- No proof could be obtained that the Municipality has developed a documented framework for its performance management system [Regulation 7(1)]
- Due to the fact that no community forum has been established, no regular meetings to consult on the development of the framework for the PMS were held as required in Section 42 and Regulation 15.
- No proof could be obtained that the executive committee/executive mayor/committee of councillors managed the development of the Municipality's PMS. [Section 39(a)]
- No proof could be obtained that the responsibilities for development of the PMS were assigned to the municipal manager by the executive committee/executive mayor/committee of councillors. [Section 39(b)]

Adoption of the PMS

- No proof could be obtained that the executive committee/executive mayor/committee of councillors submitted the proposed PMS to the municipal council for adoption. [Section 39(c)]

Implementation of the PMS

- Due to the fact that no community forum has been established, no regular meetings were held with the community forum to monitor the implementation of the PMS as required by Regulation 15(2)(a).

Monitoring and review of the PMS

- No proof could be obtained that a mechanism to monitor and review the PMS, was established. [Section 40]
- Due to the fact that no community forum has been established, no regular meetings to discuss the review of the Municipality were held as required in Section 42 and Regulation 15.
- No proof could be obtained that the key performance indicators (KPIs) and performance targets were made known both internally and to the general public, in a manner determined by the council. [Section 44]

Evaluating the framework for the PMS

- No proof could be obtained that the different role-players for performance management purposes were determined and documented in a framework. [Regulation 7(1)].

Evaluating the PMS

No proof could be obtained that the PMS of the Municipality:

- demonstrates how it is to operate and be managed from the planning stage up to the stages of performance review and reporting. [Regulation 7(2)(b)]
- clarifies the roles and responsibilities of each role-player (including the local community) in the functioning of the system. [Regulation 7(2)(c)].
- clarifies the processes of implementing the system within the framework of the IDP process. [Regulation 7(2)(c)].
- determines the frequency of reporting and the lines of accountability for performance. [Regulation 7(2)(e)].
- relates to the Municipality's employee performance management process. [Regulation 7(2)(f)].
- provides for a procedure by which the PMS is linked to the Municipality's integrated development planning process. [Regulation 7(2)(g)].
- is devised in such a way that it may serve as an early warning indicator of under-performance. [Section 41(2)]

3.3 PHASE 3

The following exceptions were noted:

Prescribed process for setting Key Performance Indicators (KPIs)

- No proof could be obtained that the Municipality's performance management system prescribes a process for setting KPIs. [Section 41(1)(a)], as the PMS system is not yet formally documented.

Prescribed process for the review of the KPIs

- No proof could be obtained that the Municipality's performance management system prescribes an annual performance review process for the review of the KPIs, [Regulation 13(1), 13(4)], as the PMS system is not yet formally documented.

Developing KPIs

- The local community, either through an appropriate municipal wide structure for community participation or a community participation forum, was not allowed to participate in the setting of appropriate KPIs for the Municipality. [Section 42]

Evaluating the KPIs

It could not be ascertained if:

- KPIs were set for all the Municipality's administrative units and employees.
- KPIs were set for every Municipal entity and service provider with whom the municipality has entered into a service delivery agreement. [Regulation 9(1)(a)].

3.4 PHASE 4

The following exceptions were noted:

Prescribed process for setting Performance targets

- No proof could be obtained that the Municipality's performance management system prescribes a process for setting performance targets. [Section 41(1)(b)]

Setting performance targets

- No proof could be obtained that the local community, either through an appropriate municipal wide structure for community participation or a community participation forum, were allowed to participate in the setting of performance targets for the Municipality. [Section 42]

Evaluating the performance targets

- No proof could be obtained that the performance targets of the Municipality include performance targets for the municipality's administrative units, employees, municipal entities and service providers. [Regulation 9(2)]

3.5 PHASE 5

Evaluating the framework for the tracking of the performance of the Municipality's staff and service providers

No proof could be obtained that the framework clarifies:

- methods for tracking the performance of the municipality's staff.
- the lines of accountability within the municipality and the intervals for reporting thereto.
- methods for tracking the performance of the municipality's service providers.
- the reporting lines of the service provider to the municipality and the intervals for reporting thereto.

3.6 PHASE 6

Development of a monitoring framework

- No proof could be obtained that the Municipality developed its monitoring framework after consultation with either the municipal wide structure for community participation or the community participation forum. [Regulation 13]

Performance monitoring

- No proof could be obtained that the monitoring (including the actual data collection and analysis) of the municipality's and any service provider's performance are done according to the monitoring framework.
- No proof could be obtained that:
 - the data collected and analysed for monitoring purposes is accurate, relevant and timely. [Regulation 15(2)]
 - the Municipality convened regular meetings with the community forum to monitor the municipality's performance in relation to the KPIs and performance targets. [Regulation 15(2)]
 - the Municipality in accordance with its monitoring framework compared the actual results of its service providers with planned targets and performance during the previous financial year. [Section 81]

3.7 PHASE 7

The municipality has, as part of its internal control, appointed an internal auditor and a audit committee, which includes a qualified performance management practitioner, as is required by section 45(a) of the Municipal Systems Act, 2000 (Act No. 32 Of 2000)

3.8 PHASE 8

Prescribed process for performance measurement and reporting

- No proof could be obtained that the Municipality, as part of its performance management system, has established a cycle and process of performance reporting. [Section 41(1)(e); Regulation 7(1)]

Development of a performance measurement framework

- No proof could be obtained that the Municipality developed its performance measurement framework after consultation with either the municipal wide structure for community participation or the community participation forum. [Regulation 13(1)]

Development of a reporting process

- No proof could be obtained that the Municipality as part of the development of its performance management system developed the Municipality's cycle and processes of performance reporting. [Regulation 7(1)]

Performance measuring

- No proof could be obtained that the Municipality measured any service provider's performance according to the performance measurement framework. [Section 41(1)(c) & Section 81]

Reporting the performance measurements

- No proof could be obtained that the Municipality reports the performance measurements of the Municipality and any of its service providers to the relevant role-players according to the requirements of the performance management system especially regarding:
 - o Timeframes for reports
 - o Required number of reports
 - o Hierarchy/Lines for reporting

No proof could be obtained that during the financial year under review the Municipality prepared a performance report. [Section 46(1)]

Evaluating the actual performance measurement done by the municipality

- No proof could be obtained that the Municipality's measurement of its own or any service provider's performance is time-specific, source specific, valid and reliable.

Evaluating the framework for the PMS regarding the reporting process

- No proof could be obtained that a process of regular reporting to the council, other political structures, political office bearers, staff of the Municipality, the public and appropriate organs of state, was established.



Our Ref.: 5/10/3
Collab. Ref.: 24707

2007-01-19

Senior Manager: BEL2
Office of the Auditor-General
Private Bag X 96
BELLVILLE
7535
E-mail Address: JWilliams@agsa.co.za

ATTENTION: JM WILLIAMS

Dear Ms Williams

**MANAGEMENT COMMENTS ON THE REPORT OF THE AUDITOR-GENERAL
ON PERFORMANCE MEASUREMENT AT KNYSNA MUNICIPALITY FOR THE
YEAR ENDED 30 JUNE 2006**

I refer to your undated and unsigned letter in the above regard and take note of the contents thereof.

Firstly, I would like to apologise for not responding earlier as I had to familiarise myself with the organization, having taken up the position of Municipal Manager on 3 January 2007. Since then, I have consulted with the previous Municipal Manager, Mr David Daniels and would therefore like to respond as follows:

2. Audit Observations & Management Comments
2.1 Phase 1: Development of an Integrated Development Plan (IDP)

Knysna Municipality fully agrees with the findings of the Audit regarding the above. However, the reviewed IDP of Council was adopted by Council at their meeting held on 27 September 2005. Proof thereof is **attached as Annexure I**. I wish to place on record that the Knysna Municipality, during the year under review, was faced with serious capacity challenges. Since then, there have been significant improvements, i.e. the establishment of the IDP Forum; adoption of a Process Plan by Council; notice of Council's intention to roll out the IDP Process Plan and notice of intention to establish a Community Forum.

2.2 Phase 2: Development of a Performance Management System

The Knysna Municipality is in agreement with the Audit Report in this regard. Currently, desktop work is being undertaken to develop the PMS Framework. All of the elements alluded to above would form part of the PMS Framework.

2.3 Phase 3: Development and Implementation of Key Performance Indicators

Knysna Municipality agrees with your findings in this regard. The Key Performance Indicators are being developed as part of the IDP Process and will flow directly from the IDP. The other elements regarding public participation in the PMS process will have expression on the PMS Framework.

2.4 Phase 4: Setting of targets for Key Performance Indicators

Knysna Municipality agrees with your findings in this regard. Going forward, the Knysna IDP and Budget Process Plan provide a prescriptive tool for the rolling out of the PMS process. The biggest challenge, even at the moment, would be to cascade the PMS target down to lower levels of the Municipality. A lot of work has already been undertaken in this regard. Middle Management of some Directorates has been piloted with a view to set Performance Targets at those levels.

2.5 Phase 5: Actual Service Delivery Process

Knysna Municipality agrees with the findings in this regard. Going forward, Knysna Municipality's Performance Management System Framework will address this.

2.6 Phase 6: Internal Monitoring of Performance Measurements

The Knysna Municipality agrees with the findings in this regard. The PMS Framework will be developed and further subjected to public scrutiny before adoption by full Council.

2.7 Phase 7: Internal Control of the Performance Management System

The Chairperson of the Audit Committee is a qualified Performance Management Practitioner. Proof thereof is attached as Annexure II.

2.8 Phase 8: Performance Measurement & Reporting

The Measurement of Performance is undertaken through the SDBIP process. Other than that, Knysna Municipality agrees with the findings of the Auditor General.

2.9 Phase 9: Revision of Strategies & Objectives

Knysna Municipality agrees with the findings and they will be addressed as part of the process going forward, i.e. the IDP Review and PMS Framework Development.

Yours faithfully


JOHNNY DOUGLAS
MUNICIPAL MANAGER
/as

- cc - Executive Mayor, Dr Doris Wakeford-Brown
- Director: Financial Services, Grant Easton
 - Director: Policy, Strategy & IHS, Lubabalo Gwintsa
 - IDP Co-ordinator, Sandile Ngqele
 - Chairman: Audit Committee, Advocate Ray Barrell

KNYSNA AUDIT COMMITTEE REPORT ON PERFORMANCE MEASUREMENT
& COMMENTS ON THE AUDITOR-GENERAL'S REPORT- JULY 2005 to JUNE
2006

The Knysna Audit Committee appointed in terms of the Municipal Finance Management Act is, in addition to its other duties under the MFMA and the Audit Committee Charter adopted by Council, also required by the MFMA, the Charter and the regulations issued under the Municipal Systems Act to perform the functions of a performance audit committee.

During the year under review, the Committee has reviewed the quarterly reports of the Internal Auditor on performance of the Municipality's various departments in accordance with the internal audit plan approved by the Committee. At the request of the Committee, the Internal Auditor also prepared and presented to the Committee in November 2006 its report on the state of performance management in the Municipality during the period August/September 2006. This report recorded the internal audit findings and recommended ways in which controls could be improved to overcome the identified weaknesses or increase business efficiency. This report also formed the basis for the Auditor-General's Report ("the A-G's Report") to Council dated 20 January 2007, which was issued by the Auditor-General after consideration of comments from the Municipality's management relating to the position as at 30 June 2006.

While there has been progress since the end of the financial year, it is clear from the A-G's Report that the Knysna Municipality still had a very long way to go as at the end of the financial year to comply with the performance management and performance measurement requirements set out in the Municipal Systems Act and the MSA regulations, largely due to capacity constraints. Compliance is highly desirable, not only because the law requires it but also because it will help to ensure greater efficiency and effectiveness in the Municipality's operations and improved service delivery. In this regard, we reiterate our comment in our Audit Report of 16 January 2006 to the effect that the new Executive Mayor be requested to ensure that a report be prepared as soon as possible dealing with the points mentioned in the Oversight Report adopted by Council in May 2006, some of which covered the matter of compliance and the resources required to achieve compliance. This will assist Council to weigh up the costs against the benefits of various elements of compliance, so as to make appropriate expenditure choices in this regard.

It is our intention to issue a report in about six months' time to bring Council up to date on the state of compliance as at end-June 2007.

R Barrell (Chairperson)
P Bastian
N Metelerkamp
D Muller
B Young

Knysna 29 January 2007

Evaluating the municipality's actual performance reporting

- No proof could be obtained that the reports of the Municipality on its performance measurements during the financial year under review, state the relevant priority for which it is reporting, capture all the agreed objectives and indicators, specify when the measurement was done and specify the source of the measurements.

3.9 PHASE 9

The review framework

- No proof could be obtained that the Municipality, as part of its performance management system, has established a cycle and processes of performance review and improvement, whereby its strategies and objectives are revised in accordance with the review of its performance. [Section 34; Regulation 7(1)]

Development of a review framework

- No proof could be obtained that the Municipality developed its review framework (as part of the performance management system) after consultation with either the municipal wide structure for community participation or the community participation forum. [Regulation 13(1)]

4. CONCLUSION

Because the above procedures do not constitute either an audit or a review made in accordance with Statements of South African Auditing Standards, I do not express any assurance on any performance measurement as at 30 June 2006.

An audit of the financial statements in accordance with statements of South African Auditing Standards was concluded and a report to this effect was included in the annual report.

This report relates only to the specific phases of the performance management system as specified above, and does not extend to any financial statements of Knysna Municipality, taken as a whole.

5. APPRECIATION

The assistance rendered by the staff of Knysna Municipality during the assignment is sincerely appreciated.

J.M. Williams

for AUDITOR-GENERAL
Cape Town
20 January 2007



AUDITOR-GENERAL

CONCLUSION

The report presents a positive picture for the Municipality as it moves forward. The strengthening of local economic development, the integrated development plan and community participation through the creation of a fully-fledged directorate is a positive sign. Our Neighbourhood Revitalisation Programme, which is quickly taking shape, is also another activity that the Municipality feels is a positive action. The Community Based Planning process will be rolled out to our communities for the first time in the current financial year.

The challenges which face the Municipality with regard to infrastructural development are a matter of great concern. The improvements regarding our planning, particularly for the 15 year plan, demonstrate a determination to tackle this mammoth task to address these backlogs. Knysna Municipality also has to contend with housing development and the real issue of access to land. High levels of creativity could usher some wonderful solutions to the Municipal problem relating to access.

The Municipality is on a sound financial footing and as it moves forward, we are certain that we will see significant improvements in all facets of service delivery.